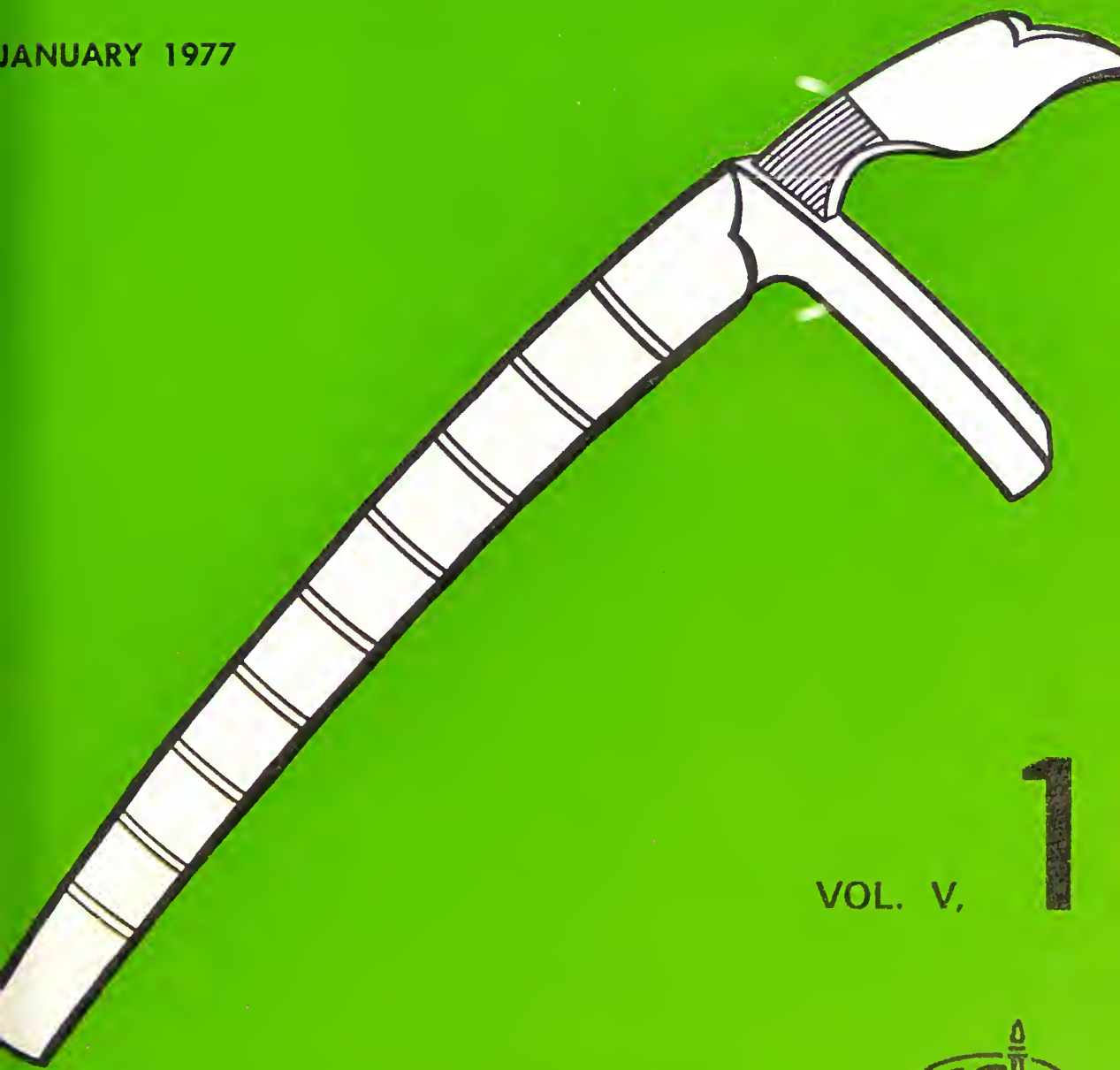


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FROM THE EDITOR

Beginning with the January 1977 issue, the Indonesian Quarterly undergoes certain changes. The first notable change affects the front cover, which is now different from the previous cover design. The display of national dagger, however, is retained. For the year of 1977, the dagger as front cover sample is called "sewar". It is a short-bladed knife used for close quarter fighting of Indonesia's past. At present "sewar" is still used as a traditional weapon by the people of Menangkabau (West Sumatra). They usually wear this on ceremonial or traditional occasions. Hence it is considered more as an art than a tool for fighting.

The second change is the new board of editors, which is enlarged and reorganized.

The articles of the present issue deal with economic, trade and business problems. Daoed Joesoef discusses the new economic order as it is presently perceived and its implications for the developing countries.

Sumitro Djojohadikusumo covers the subject of inter-relationship between technology, economic growth and the environment as problems to be faced in the next decade, while, at the same time, he outlines the main features of a long term strategy for the development of the national economy.

Panglaykim's article, "Commodity Price Stability", deals with the problems of interdependence of commodities within the ASEAN countries. He points out the strengths as well as weaknesses of the business community within the ASEAN region and how to work together to overcome the problems faced together.

Abdul Raoef Soehoed's article, "Commodities and Viable Economic Sectors", deals with development planning. In it he outlines the main features of a long term strategy for the development of the national economy. He stresses the role of specific commodities and sectors that possess vital and reliable growth potential.

In "Minerals, Food and Shipping", Abdul Rachman emphasizes the importance of transportation, especially shipping, and the competition each country faces in the years ahead.

The last article, "Supervision of Development", by Soedjono Hoemardani deals with strategies of supervision within the current development in Indonesia.

As usual, chronicles are again appended in this issue to provide the readers with information of major current events in Indonesia and in the world at large.

THE NEW INTERNATIONAL ECONOMIC ORDER

Daod JOESOF

INTRODUCTION

Among the numerous topics intensively discussed in recent years by diverse groups at both national and international levels, that of the "new international economic order" stands out above all others. It must be acknowledged that this issue is multifaceted, and may be considered in terms of its political, strategic, and even its emotional, significance. Some cynics have even commented that the real issue confronting us all is not that of international economic order but rather that of international economic disorder, and it must be admitted that their arguments are not without reason. In a sense, we are indeed in a period of transition from order to growing conflict and disorder in economic and monetary relations.

This essay attempts to analyze this problem with the emphasis on its economic aspects and, in so doing, tries to discern just what it is that is "new" here — "the order" or "the international economy". Two considerations provide the basis for discussion: firstly, the analytical necessity to shed light on the perennial sources of trouble in international trade; and secondly, the practical necessity to devise and implement policies towards this "new" element in the international economic relations. For, the purpose and content of such policies must depend upon an evaluation of the significance for our national interest of this "new" economic factor. In conformance with these two considerations, the following essay contains two sections. The first one deals with the essence of growth of the world economy, while the second is concerned with steps that should be undertaken to maximize the benefits obtainable from that pattern.

I. THE WORLD ECONOMY

What is really "new" in the now set expression "new international economic order" is, in our opinion, the "international economy", the order of which may differ from that of the "old" international economy. In other words, the "new international economic order" is really just a different name for the "world economy" that has emerged since the end of the second world war. Substantially it could even be called a "genuine" world economy because, unlike the international economy of nineteenth century international trade theory, it is not simply an agglomeration of national economies. It is fundamentally autonomous. It has its own dynamics, its own demand patterns, its own institutions and, with the creation of Special Drawing Rights (SDR), even its own embryonic money and credit system.¹

At first sight, the emergence of this world economy is the one real hope for most of the developing countries, the majority of which are too small to be viable as "national economies" under present technologies, capital as well as research requirements, and presently available transportation and communication facilities. However, in reality the contrary is true. For, within the confines of the world economy, trade among nations is no longer a matter of the complementary provision of goods and services in which, as suggested generally by economic textbooks, Britain sends textiles to Portugal and gets Portuguese wine in return. Trade now grows most vigorously, in volume as well as in value, between nations which have more or less the same level of technical civilization and which are converging in their economic and industrial systems. Thus America finds it very difficult, for instance, to trade with the "complementary" economy of India, but very easy to trade with the "parallel" economy of Canada. A similar difficulty would be encountered in the trade relations between the other developed countries like Japan, Australia and the West European countries on the one hand and the developing nations of Africa, Asia and Latin America on the other. Thus trade within the set of industrialized countries is much more intense than is trade either between the industrialized and non-industrialized sets or within

1 Peter F. Drucker, "Multinationals and developing countries: myths and realities", *Foreign Affairs* (Oct., 1974), p. 133

the non-industrialized set.²

The cause of these realities of contemporary international trade is the fact that the world economy is basically pushed and nourished by technology. Technology has indeed done much for the progress of the economy. If technology was responsible for the change of the "industrial economy", which was known long before the first world war, into a "service economy", its rapid development after the second world war has turned the latter into a "knowledge economy". It is through this last mentioned change that technology, in turn, gradually has converted the "older" international economy into the "new" international economy which we think could be more precisely defined as a genuine "world economy".³

In the course of its subsequent growth, this world economy has increasingly accentuated the difference in development between its advanced and less developed component parts: The transportability of certain natural resources of the less developed parts that makes them possible to be integrated in the world economy was and is not altogether a blessing. Firstly, because most of those less developed parts were compelled to export raw materials for short-term gain and import food or finished goods, a procedure which hardly assists them in making economic progress. Secondly, because they sell it to the world market in its rawest forms due in general to the low level technology they possess. Such a situation not only kept the value added of their natural resources at its lowest basic level while also not promising optimum development for them. Last, but not least, the price of their transportable resources were kept artificially low and stable for a very long time by buyers in the developed component parts.

This constellation of trade came about as a result of the business relationship established largely during the colonial period.

2 Thus Prof. Kiichi Saeki from Japan pointed out that the relationship of mutual interdependence between the advanced democratic industrial nations and the developing nations is drastically smaller than the one which exists among the advanced developed nations. See his article, "Sense and nonsense of economic interdependence", *Japanese-Indonesian Relations in the Seventies* (Jakarta: CSIS, 1974), p. 50

3 For a more detailed analysis of such an evolution, see: Irving Kristol, "The new era of innovation", *Fortune* (Febr., 1969); Peter F. Drucker, *The Age of Discontinuity: Guidelines to Our Changing Society* (New York: Harper & Row); Daoed Joesoef, "Knowledge economy and World economy", *The Indonesian Quarterly* (Jan., 1974)

When the less developed component parts achieved political independence, they found themselves, as young nation states, at such a weak economic and technological position that they were powerless to alter the unfavourable pattern of their trade relationships. In fact there is considerable evidence of the prevailing pervasive dependence of the overwhelming majority of the less developed component parts of the world economy on the advanced parts for all manner of sophisticated technology. A list of such technology would include: complex machines of war, scientific knowledge and the related training specialists in a host of fields, technical and organizational know how vital to large-scale enterprises, as well as the investment capital essential to purchase, borrow, rent or otherwise employ those resources.⁴ This accounts for the growth of an asymmetrical interdependence between the advanced and the less developed component parts of the world economy. Where parties are asymmetrically interdependent, the less dependent may be able to manipulate the relationship to achieve its goals not only in the area of the issue under consideration, but also in the form of side-payments in other areas as well.⁵

The extremely rapid growth of trade among the advanced sections of the world economy generates a major financial problem, that is, how to obtain the necessary means of payment acceptable to all trading parties concerned and in an increasing quantity in conformance with the speed of trade expansion. The need for increased international liquidity becomes felt increasingly because liquidity is necessary not only as a means to settle the balance of international transactions but also as a means of providing national reserves that should be kept for both national safety and flexibility.

Traditionally, international liquidity reserves are replenished only by increases in gold production. Gradually, however, this state of affairs came to represent more of an obstacle than a lubricant to international trade because, on the one hand, the rhythm of increases in gold production lagged behind the increment of the financial requirements of trade while, on the other hand, gold it-

4 Alex Inkeles, "The emerging social structure of the world", *World Politics* (July 1975), p. 487

5 Robert O. Keohane and Joseph S. Nye, Jr., "Power and interdependence", *Survival* (July/August, 1973, no. 4) p. 160

self has alternative uses apart from serving as element of monetary reserves. This latter aspect gave rise to an additional problem, that of reconciling the price of gold as a means of payment and its price as a material of production.

As a result of the Bretton Woods agreement in 1944, the world economy accepted the "gold exchange standard" which, in practice, proved to be a "dollar standard". The growing demand for international liquidity since the end of the war was indeed increasingly serviced by the American dollar. But unlike gold, the U.S. dollar is a "national currency", and this fact gradually generated tensions in the international monetary sector.

Tensions developed because, firstly, the dollar, as a national currency, represents national sovereignty, that is, variations in its circulation are, in the first and last instances, determined by the (monetary) policies of one state, and such policies are not necessarily always in accord with the international interests serviced by the dollar. In other words, international financial requirements were indirectly determined by the political position adopted by the United States as that state whose currency had become the medium of international liquidity. Secondly, the fact that the dollar became the standard for the international monetary system was potentially dangerous for the United States itself. By allowing the dollar to become the international standard, and therefore function as transnational currency, the United States alone became responsible for supplying the international payments system with the liquidity it required. The means to supplying this liquidity consisted not only of trade and the provision of aid, but also allowing the United States' balance of payments to fall into deficit. Thirdly, on the pretext of supplying the world economy with the liquidity it needed, the United States could misuse dollars at the international level to finance transactions that were basically designed to serve her national interests. The USA could behave in this way because, in the event that such essentially selfinterested transactions brought her balance of payments into deficit, she could correct the imbalance with her own currency, something which other countries, of course, were unable to do. Because "currency" is really a "short term debt", then insofar as such US deficits represented "debts", their payment with dollars was in fact no more than the payment of debts by the creation of new ones, and so on. Finally, the existence and the circulation of dollars outside the

USA gradually caused difficulties for the USA herself in her attempts to overcome her balance of payments problems. For, whether these dollars are held by foreign individuals or stored in foreign banks and/or Central Banks, they earned interest at prevailing rates. Such a state of affairs means that the United States' balance of payments was forced to carry a yearly burden equivalent to the prevailing rate of interest multiplied by the number of dollars outside the country — i.e. the amount of interest payable to holders of U.S. dollars abroad. In the event of speculative movements, it could be predicted with reasonable certainty that the U.S. balance of payments deficit would be at least at the same level as the total of such interest payments.

Because of these weaknesses inherent in the dollar standard, people began to seek a new element in the provision of international liquidity. Efforts were directed towards discovering alternatives to gold, which was called "barbaric", and to the dollar, which was described as "dominant" and even "imperialist". Thus was created a "gold paper" in the form of "Special Drawing Rights" (SDR) within the system of the International Monetary Fund (IMF). A similar concept had in fact been proposed by Lord Keynes at Bretton Woods in 1944, in the form, to be called "banco", i.e. "credit currency" created by a world financial institution (bank). On that occasion, Keynes' proposal was rejected because at that time confidence in the dollar was still strong. In order to avoid the impression that the SDR, as "international money", represented a creation *ex nihilo*, a sort of fiduciary currency not guaranteed by any state, the purchasing power of which was not based on, and therefore underwritten by, the productive capacity of a particular country, the creation of the SDR was based upon what was known as a "standard basket of currencies", that is, a selection of the national currencies of several industrially-advanced countries.

Official IMF communiqués frequently claim that the SDR was not created solely to serve the interests of the advanced countries, but also to "benefit" the poor and less developed countries. Be that as it may, the fact is that the allocation of SDR is determined in accordance with the amount of the quota of each IMF member state, and everyone is aware that this amount is a function of the level of respective national wealths. So, when the IMF commenced dispensing SDR among its members on 1 January 1970, two-thirds

of the first issue fell into the hands of the ten richest countries in the world while the remaining third was divided up among more than one hundred of the poor and economically backward member-states. The pattern of allocation in subsequent SDR issues has remained virtually unchanged.

II. STEPS TOWARDS FULL PARTICIPATION IN THE WORLD ECONOMY

If the condition of the “new international economy” or, for that matter, “world economy” is indeed as we have portrayed it above, then it is quite clear that it does not generate equal benefits to all participating states, and particularly not to those relatively poor and less developed countries that are in an inherently disadvantageous position. In order to improve this unhealthy process of development — which could, at some point, produce internationally explosive conditions — steps must be taken both collectively at the international level and individually at the national level. Two types of action may perhaps be considered, one fundamental and long-term in nature, the other more marginal, supportive and short-term oriented.

1. Major Long-Term Measure

Perhaps the most important measure, and the one singled out for particular consideration here, is generally referred to as the “transfer of technology”. We attach such significance to this specific measure because it is upon the degree to which the less developed countries master technology and employ it to bring their economy into a “parallel” state with those of the advanced countries that currently dominate international trade, that their future as equal participant in the world economy depends.

Obviously the transfer of technology is not merely the problem of the less developed countries, but represents a problem for the advanced countries as well; for it is they who must manifest the political will to undertake the transfer. In view of the fact that virtually all forms of production technology are patented, their transfer to the poor countries may only take place by two means: theft or purchase. The first of these alternatives is obviously dishonour-

able, while the second is expensive (because technology itself is not a cheap economic item). Precisely because technology is so expensive, it is implicit that the political will demanded of the rich countries in order to make possible significant transfer of technology must also be accompanied by a proportionate preparedness to provide aid or loans

Three main channels through which technology could be transferred may be visualized.

First, by means of formal education and/or large-scale skill development. Education and training are known in economic analysis as "human investment". Investment of this type has assumed greater significance as a result of the increasing evidence provided by economic historians to support the argument that human capital has played a more important role in economic development during the past century than has physical capital. The term human capital in this context encompasses not only individual or group aspirations for progress, but also — and perhaps more significantly — knowledge, technical expertise and their organization.

Secondly, technology may be transferred into the agricultural sector. The less developed countries are in need of improved agricultural technology not only in order to raise nutritional levels and to increase the production and stockpiling of foodstuffs, but also to strengthen their trading position with respect to agricultural and forestry exports. Foreign exchange earnings and the livelihood of the bulk of the population are highly dependent upon the export of agricultural products, and the impact of the development of synthetic products is proving increasingly disastrous for many people in the developing countries. The less developed sections of the world economy are in sore need of assistance in increasing agricultural productivity, improving the quality of their agricultural products, strengthening their competitive position in the world market for agricultural products, and broadening the bases of their export sectors.

Thirdly, through industry. Many less developed countries are at such a low level of development that they are primarily in need of elementary technology to enable them to process their own natural raw materials. The success achieved by several exporting countries demonstrates the much greater benefits that can be

derived from the world economy if natural raw materials are exported in processed or semi-processed form. Programs to enable developing countries to process raw materials for export are of much greater value, for both the advanced and the less developed countries, than is the indexation of raw material prices against industrial goods. Indexation tends to freeze raw material prices for unlimited periods, including the prices of commodities for which real demand has in fact decreased during the price-freezing periods. For those developing countries that have already attained a relatively advanced level, industrial technology continues to be necessary to enable the improvements in the quality of their industrial products demanded by a world market in which they must compete with the rich and industrially-advanced states.

In view of the crucial significance of international trade as the motor for the development of many less developed countries, technological progress is essential to enable them to diversify production and to keep abreast of the changing patterns of demand within the world economy. Such diversification, which automatically implies broadening the base of the export sector, is very important because of the historically-demonstrated tendency for the demand for each raw material per production unit — the coefficient of the intensity of utilization — to alter in relation to changes in productivity per capita. There is a demonstrated tendency for the requirement for raw materials to decline over time even though production remains at the same level. Technological advances tend to reduce the intensity of utilization, and economic change encourages the replacement — relatively, and sometimes absolutely — of one raw material with an alternative raw material or with a synthetic substitute. Insofar as foreign assistance is regarded as essential for the diversification of production, the technical component of assistance is much more important than the capital component.

The transfer of technology is clearly no simple matter. Although the technological treasurechest may be overflowing and the wonders of technology increasing geometrically, most of the less developed countries are in need of different types and levels of technology than those predominant in the developed countries. The type of technology appropriate for many less developed countries should perhaps be more labour-intensive and job-creating, in both the industrial and agricultural sectors, than is the case in the industrialized states. The development of this form of technology,

and of practical means for its transfer and adaptation to local conditions — apart from those already known in the developed countries — requires detailed research and finance in quantities clearly beyond the capacities of most less developed countries. The developed countries could encourage and implement research programmes to be conducted jointly by governments, private enterprises as well as universities and research institutions of the less developed countries. Such programmes should be designed to build up the capacity of the developing countries involved to develop their own technology in accordance with local requirements.

2. Supplementary Short-Term Measure

One supplementary and short-term measure that deserves serious attention relates to the collective action by the less developed countries to alter the criteria for SDR allocation.

Within the system of IMF, the current SDR allocation is supposed to be made on an objective basis, the "objective" criterion being the amount of each member-state's quota. Insofar as the fixing of IMF quotas is more or less directly related to the relative wealth of each member state, the current SDR allocation system in fact distributes SDR in proportion to the relative wealth of members so that the pattern of distribution reflects the prevailing distribution of wealth among states.

Poor countries comprise by far the largest proportion of the membership of the IMF, and the SDR mechanism was created with the explicit purpose of serving their interests as well as those of the rich members. The primary interest of the poor countries is to fight their way out of their poverty by means of development. Insofar as it is desirable for development to be financed by trade, the poor countries in general need, in order to facilitate their trade, access to monetary reserves beyond their capacity. If the SDR system is not merely to serve the interests of the rich, SDR allocation must be directly linked to the liquidity requirements of poor country development programmes.

In order to bring about the more effective utilization of SDR for the development of the poorer member-states, the IMF should create periodically not one but two forms of supplementary international liquidity based upon two distinct sets of allocation criteria:

- (i) SDR for rich, industrially developed member-states, allocatable in proportion to their respective quota;
- (ii) SDR for the poor, less developed member-states, the utilization of which should conform to clearly defined criteria and purposes of development, such as, (a) to purchase staple food requirements, (b) to repay debts incurred by governments for developmental purposes, and (c) to finance the transfer and adaptation of specific priority technology.

The determination of SDR allocation for the purchase of staple foods could be linked directly to world food planning. Plans for the distribution of staple foods, based on the requirements of countries experiencing shortages and on the capabilities of surplus countries to meet those requirements, could be drawn up, taking due account of:

- (a) regional complementarity,
- (b) the need to grant priority to poor suppliers that are particularly dependent upon one type, or a limited range of types, of food product, and
- (c) the situation of food stocks within particular regions, a factor of considerable significance for the stability and peace of the regions concerned.

In the case of the utilization of SDR for the specific purpose of repaying debts incurred by governments for purposes of economic development and the transfer of priority technology, it should be feasible to fix a certain percentage of such debt repayments which may be met with SDR.

The adoption of certain key principles, such as those advocated above, would mean that the criteria determining the allocation and utilization of SDR would be based on clearly understood and readily supervisable requirements for the specific purposes of food purchases, debt repayment, and the acquisition of priority technology. In this way it would not always be necessary for the poor countries involved to receive SDR allotments directly, rather, SDR could be paid straight into the accounts of creditor member-states to cover approved SDR debts.

From the point of view of the rich countries, there would be no fundamental difference between receiving SDR through the intermediary of developing countries, as the system advocated above

would entail, and receiving them straightforwardly in accordance with their "objectively determined quota" as IMF member. The United States, for example, which is the principle member of the IMF, and, in practice, the main supplier, would receive at the end the largest proportion of the total SDR in circulation through this second (intermediate) channel. The same situation would apply for European suppliers as well. Insofar as there is a discrepancy in the final position of the SDR-assets among rich countries or between rich and poor countries, it would be a positive one, in the sense that the rich industrially advanced member-states have obtained their SDR not on the basis of their quota alone — which, no matter how "objectively" determined, does tend to reflect their level of wealth — but rather on the basis of their relative contribution towards assisting the development efforts of poor developing member-states. In this way, whatever discrepancy occurs between the amount of SDR received initially by a particular member-state and the amount of SDR she obtained finally from each issue of SDR, is appropriate, healthy and dynamic. Such a discrepancy would be "appropriate" because it would be nothing less than earning rewards for assistance to poor developing countries. It would be "healthy" by virtue of being the result of planned economic transactions made in accordance with international agreement. It would be "dynamic" because it would provide incentives for technologically advanced countries to provide development assistance in order to get, as rewards, additional international liquidities that they so badly need to smoothen the growth of their market economy.

The primary purpose of measures advocated above is to change the SDR allocations from one based automatically on quota to one based on the development needs of the poor countries, on the one hand, and the willingness of the rich countries to assist in the development of the poor countries, on the other. In a quantitative aggregate sense, the development oriented approach presented here is perhaps little different in its effects from the currently in use. In qualitative and social terms, not to speak of humanitarian considerations, however, it is clear that the impact of the proposed new system would be very different. Not only would the system proposed here be more positive and dynamic, it would quite possibly contribute to diminish the paralyzing gaps between the wealth of the developed and the less developed countries. This

effect would, in the long run, be of economic benefit as well to the rich countries particularly in view of the fact that the only solution to the increasingly sharp competition among the market economies of the rich countries is to increase the number of solvent and liquid sections of the world economy.

CONCLUSION

One of the major sources of "unpeaceful" development in the new international economic order and in the international system as a whole, in the next decade could be the incongruence between boundaries of economy and state or, in other words, the drifting apart of the unit of economic action and the unit of political control. The unit of the economy has become larger and larger, until it can be called a world economy wherein the international economic relations are based on power structure nourished by technology which tend to ensure, if not to strengthen, their continuity. In contrast politically territories in this century become smaller and more splintered to the point where the fewer than 40 independent states of 1914 have now become almost 200 sovereign nation states.⁶

Dissatisfaction and concern has increased among the less developed countries with the realization that their participation in the world economy does not give them equal benefit. Their role in the growth of the world economy has placed them in a state of asymmetrical interdependence rather than a mere interconnectedness vis-a-vis the advanced countries.

It must be acknowledged that the "order" of the world economy is in need of corrective measures, but even if such measures were to be carried out to perfection the less developed countries would not automatically receive benefits as equal as the advanced countries. For the less developed countries, the essential problem is how to achieve full participation in the growth of the world economy. The achievement of full participation will require more than mere improvements in the order of the world economy. Essentially it requires that the economies of each of the less developed countries become "parallel" with the economies of the ad-

6 Peter F. Drucker, "Aftermath of a go-go decade", *Economic Impact* (No. 12, 1975), p. 41

vanced countries. Only when this has been achieved will the now less developed countries be able to conduct business satisfactorily within the world economy. In order to bring such a change about, the less developed countries need to introduce technology into the body of their national economies. This introduction requires the transfer of technology from the advanced to the less developed countries.

The access of the less developed countries to technology and capital on a reasonable basis does not constitute a farfetched illusion or a medicant supplication; it is a claim formulated according to international justice. The proscription of restrictive clauses for the concession of credits or for the completion of common programs is a categorical imperative derived from international social justice.⁷ For, without the transfer of technology the progress of the world economy will strengthen the dependency of the less developed countries without solving the internal problems created by the dependency.

Concern of the government of the less developed countries about the disadvantageous position of their countries in the world economy is increasing daily in the absence of any workable theory of the world economy and the failure so far, even among the advanced countries, to devise an effective provisional economic policy. This failure is also the reason why national governments, those of advanced and less developed countries alike, become more vigorously assertive of their sovereignty and for the increasing tendency for economic affairs to become more politicized.

7 See also Rafael Caldera, "The universal common good and international social justice", *The Review of Politics* (Jan., 1976, no. 1), p. 37

TECHNOLOGY, ECONOMIC GROWTH AND ENVIRONMENT

Sumitro DJOJOHADIKUSUMO*

INTRODUCTORY REMARKS

The following observations are an attempt to review the state of the debate on technology, economic growth and the environment and to identify their interconnecting links. I will have to restrict myself to salient aspects and will therefore be guilty of stating broad, generalized propositions. Nevertheless I also hope to draw attention to some specific problems, which at this point in time are of urgent relevance to the survival of the poor majority of the world's population.

Until recently the issues have been blurred by mutual recriminations between practitioners of development economics with many protagonists of technology on their side and those preoccupied with the living environment embracing all branches of biologists. Each of the two camps was joined at one time or other by variegated groups of social scientists and political ideologues. There are signs that recrimination have diminished; at least they have lost much of their edge.

A thorough re-assessment has set in as to the direction of growth and the patterns of development. This entails a reorientation of strategies and objectives in their broader social context. There is a heightened awareness of environmental limits of the biosphere and of the possibility that in the not too distant future resources for growth may be inadequate to meet the world's requirements. Even if it is agreed that the notion of materials scarcity in the absolute sense is speculative rather than established fact, we

* Text of Address to *The International Conference on the Survival of Humankind: The Philippine Experiment*, Manila 5-10 September 1976

have already entered the stage of relative materials-imbalances, i.e. in supply-demand relationships, with particular reference to energy fuels and certain basic minerals. This situation has in itself aggravated the plight of the world's poor. It has magnified the ramifications of the prevailing maldistribution of world incomes which preclude the minimal basic needs from being translated into effective demand.

On the other side ecologists have increasingly directed their search and activities towards solutions for the concrete problems of the present. Inevitably they are faced with the imperative of a social breakthrough from the trap of absolute poverty for two-thirds of mankind or more. Only in these terms is it meaningful to think and to speak of the survival of man as a living organism. Logic impels such a breakthrough to be conceived as a process of accelerated growth and therefore of continued and perhaps intensified utilization of productive resources, albeit along a different path and in a different pattern that should ensure resource availability for an indefinite period. This is readily conceded by development economists who, from their own vantage point, have arrived at conclusions of a similar kind.

In the light of this convergence of approach, it should now be possible to concentrate on establishing appropriate frameworks for operational policies which deal with growth and environment not as a dichotomy but as entwined components of a basic strategy. This would be difficult and complicated but more fruitful. Policy-makers, planners and scientists in many parts of the world are currently engaged in integrated activities to cope with concrete cases of pollution abatement (in industrially advanced countries) and the prevention or rectification of ecological damage (in the developing world).

It is in the above context that the role of technology, and hence of science and research, must be viewed with stress on their social function, altogether as an important component but linked to the growth process and to environment considerations within a coherent policy framework.

DIRECTIONS AND PATTERNS OF GROWTH

An improvement in the levels of living of people in developing countries can only be effectuated through accelerated growth with equity. The kind of environmental stress and the damage to ecology in the developing world are not due to high growth rates but to stagnation and stultification. The damage is inflicted not least on human life itself caught in the maelstrom of absolute poverty, malnutrition and gross inequalities in the distribution of income and wealth. Thus it is neither growth nor a slowing down of growth rates that is at issue, let alone zero growth which is in the face of prevailing realities tantamount to a freezing of the status quo in all its despairing disparities.

In order to break the process of *circular causation with cumulative effects*¹ which holds down the entire social system and at the same time to cope with deterioration of the environment there is no other way but to accelerate development and to utilize available resources, with a minimum of waste to be sure, and for the benefit of the greatest number of people.

This does mean, however, a drastic *reorientation* in development strategies and objectives, where the social phenomena of poverty and unemployment and their eradication are regarded as economic priorities of the first order. The process of growth is thus made a function of policies that aim at providing people with the basic requirements of food, clothing, shelter, education, health and with remunerative employment. In other words the structure of production and the utilization of productive resources (human resources, natural resources, capital, technology) must be arranged or re-arranged with the above policy objectives and priorities in mind.

The foregoing has gained general acceptance as a concept among the countries of the Third World and their representatives. In terms of effective policies however we are able as yet to discern mere glimpses of a timid beginning. This shift in policy orientation poses indeed daunting problems at the very moment of its implementation. It involves nothing less than an overall trans-

1 Gunnar Myrdal, *Environment and Economic Growth*, Commemorative Lecture, International Conference on Environment, organized by Nihon Kaisha Shimbun, Tokyo 26-28 May 1976

formation of structural relationships in the process of accumulation and allocation of resources as well as in their distributional aspects.² The challenge is multiplied by resistances within the social fabric of many developing countries.

These are connected with vested interests among the upper strata as well as with social and economic power structures at the village level. Still the job must be done if more than lip service is to be rendered to the redirection of growth and the changes of development patterns. This remains the prime responsibility of national governments within their own respective societies and towards their own people. It is obvious that developing nations need an international framework which is conducive to and can reinforce national policies of that nature. While it is fair to hold that a country's success in coping with its internal problems increases its ability to mitigate adverse impacts generated by external forces, past and contemporary experience bears evidence that national policies aimed at creating conditions of social stability through growth with equity are persistently impeded by external disturbances. These also tend to perpetuate and to reinforce the disparities in the levels of living among nations, i.e. between the developing nations and a small group of industrially advanced countries.

The combined intensified effort of the Third World to establish a new international economic order is the international dimension of the structural changes considered necessary in the direction of growth and the patterns of development. The world is faced with a whole range of complex issues: food for an increasing population; problems of unemployment and obstacles to industrial development; problems of energy and basic materials; resource-policies and their impact on the human environment; the role and development of education, research, science and technology in their social context; problems of international trade and payments; the activities, benefits and disadvantages of transnational corporations and the like. Many influential circles still tend to regard the above issues as a set of temporary though inter-related "crises". Yet they are in essence phenomena and symptoms, reflecting deeper underlying forces of a more fundamental nature. These

2 Hollis Chenery and Moises Syrquin, *Patterns of Development 1950-1970*, with the assistance of Hazel Elkington, A World Bank Research Publication, Oxford University Press 1975, p. 6-10

forces have been at work for some time but have come to the fore only recently. They are connected with the role of and the interaction between natural resources, population and technology, and hence with the impact of such interaction on the human environment.

Science and technology have been developed and are controlled by the societies of advanced industrial countries. They provided the key to the development of the world's natural resources, but their application was geared to the increasing demands of high-level income groups with excessive consumption patterns, prevalent in the advanced countries and among a thin layer of upper strata within the developing societies. Developments have brought about a relative scarcity in basic materials while falling short of meeting the basic needs of the world population at large. They have thus aggravated the contrasts and disparities between rich and poor, between nations in the international context as well as within the societies of the respective nation-states.

A reorganization, or "restructuring" if one wishes, of institutional arrangements in the international framework has become essential. It involves nothing less than the redistribution of the decision-making and voting powers in the policy management of those international organisations and agencies which deal most with the volatile issues indicated before. Structural reorganisation of policy management would have to entail the active participation, with equal powers in decision-making, of essentially three elements each of which would respectively represent: (1) the group of industrially advanced countries possessing capital and technology but dependent on continued access to basic materials located in developing countries, (2) a group of developing countries with resources but no capital and lacking technological capability, (3) the group of poor countries with neither resources nor capital and technology. The third category comprises the majority of nation-states and also the majority of humankind. Therefore although devoid of resources, capital and technology, as long as this group of nations are not active participants in the decision-making process, on an equal footing with the other two elements, there is bound to be restiveness in the larger part of the global system, perhaps at varying times but nonetheless persistently.

The composition of the Conference on International Economic Cooperation (CIEC) in Paris is a step in the right direction. Results of CIEC have so far been negligible. The same can be said of UNCTAD IV in Nairobi. No one is under any illusion of substantive results in the short term given the tendency among the advanced countries to hold on to the status quo. Countries of the Third World will press their demands all the more whenever the occasion arises, in conferences of the United Nations, its Specialized Agencies and Regional Organizations, at intergovernmental meetings and in other forums. Whatever the specific topic for discussion — bufferstock financing, resources, quota and pricing arrangements, food employment, transfer of technology, international trade and payments — at the core of it all is the question whether collaborative modalities can be attained which involve a redistribution of decision-making powers in the sense such as indicated before.

DEMAND FOR RESOURCES AND ENVIRONMENT IMPACT

For the longer run aspects of resource adequacy, I suspect that policy-makers, planners and scientists rely in the main on man's ingenuity, i.e. new scientific, technical and social knowledge, for human existence to continue, hopefully under conditions of amelioration. But meanwhile there is the time dimension. The materials imbalance referred to earlier represents excess effective demand under the prevailing supply conditions of primary reserves.³ My own guess is that the situation may last for another fifteen years before remedial programmes generate substantial results through the development of alternative sources of supply. Ever since the outbreak of the "oil crisis" I have maintained that the world will be forced to move towards new points of equilibrium at higher levels of costs and prices, with emphasis on energy fuels and hence with ramifications to a wide range of goods and services.⁴

3 That portion of total potentially available resources which has been discovered and is economically recoverable under prevailing prices and known technologies.

4 Cf. the author's, *Energy and Raw Materials: Present and Future*, 1974 and *The Political Economy of ASEAN Resources*, 1975

On the demand side, contemporary evidence demonstrates a built-in rigidity. Particularly among middle-income and higher income groups there is a basic conservatism in the direction of demands as well as in other patterns of life.⁵ They will continue to exert effective claim on the world's resources commensurate to their "style of life". In this connection an intriguing observation is made by Nathan Keyfitz in a recent paper.⁶ This review of raw materials use by people indicates that affluence is relatively more important than population. As income rises, per capita consumption goes up. The increase of affluence has much more effect in terms of impact on the materials base than the increase of population as such. Thus the movement of people from poorer groups into the middle-class has more effect on materials and the environment than the increase in the number of poor people. Keyfitz suggests that in terms of materials impact the weight of a middle-class person is in many respects more than five times that of a poor person such as typically represented by the peasant in Java or Nigeria. Leaving aside whether it will be five times or less, Keyfitz's proposition regarding the multiple impact of affluence is eminently plausible. This dimension of the problem must be added to the pressures of sheer numbers in population growth that are expected to continue any way for the rest of this century.

We must further consider the effects that demand for materials have on the living organisms, hence in this context on the state of renewable resources such as land, water and vegetation. A case in point is the intensified search for uranium and the expected role of coal which has re-emerged as an important source of energy. How will all this affect the surrounding land, crops and trees, particularly in areas of tropical rain forests? It may have far reaching consequences for water supply and soil conditions. The capability of developing countries to meet present and future requirements of food and habitation in the face of population growth depends critically on the availability of land and water resources. I would hold that in dealing with the issues of food and habitation, of urban growth and increased agricultural demand all at the same time, water is likely to be the most intractable constraint, more so than land as land and soil conditions are greatly dependent on

5 Gunnar Myrdal, op. cit.

6 Nathan Keyfitz, *World Resources and the World Middle Class*, Scientific American, July 1976

water. In turn water resources must be seen in direct connection with forestry and forestry management. Deforestation has caused soil erosion on an extended scale and perennial floods. Current soil erosion is such that a great deal of potential crop production is lost annually through decline in soil fertility, increased flooding and silting of low lands, irrigation canals and reservoirs.

Shifting crop cultivation is still a common practice in many parts of the human tropics. It might have been ecologically acceptable in former times when adequate time was allowed for the forest regeneration cycle, permitting the maintenance of soil fertility. In the meantime population pressure has caused a decrease in the ratios of land areas to population and a fragmentation of small holdings. There is often not even a recovery period and extensive areas have become over-grown with obnoxious *alang-alang* (secondary vegetation) which makes land unsuitable for agriculture. Excessive timber exploitation by modern techniques generate similar effects as shortened shifting cultivation. Logging practices currently observable in the Philippines (Mindanao) and Indonesia (Kalimantan) bring forth the image of a highly mechanized form of shifting cultivation based on inadequate rotation periods.⁷ International logging companies either lack the knowledge or even the will to employ their technologies in accordance with regeneration and conservation principles. There is still another dimension of the use of timber which accelerate the degradation of woodland throughout Asia, Africa and Latin America. It concerns an essential need of the poor masses, viz. firewood. Here is another kind of energy crisis which has astonishingly received little attention in the deliberations of proliferating forums on the "energy crisis". Eckholm has forcefully pointed out that the need for firewood and the resulting degradation of woodland lie at the heart of what will likely be "the most profound ecological challenge of the late twentieth century."⁸ At least half of the world's timber cut still fulfills its original role for humans, viz. a source for cooking fuel and warmth. The amount of wood being burned in a particular country is determined by the number of

7 Gordon Conway and Jeff Romin, *Ecology and Resource Development in Southeast Asia*, Ford Foundation, March 1972

8 Erik P. Eckholm, *Losing Ground*, W.W. Norton & Co., Inc., New York 1976, Ch. 6, p. 101-113

people who need it. Per capita fuel wood consumption average 1 ton per annum. Coal, gas, electricity and since the rise of oil prices, kerosene, have all become out of reach of the world's poor. Over the long run many of those using firewood will have to turn in directions other than fossil fuels.

The combined effects of shifting crop cultivation, excessive timber extraction by modern techniques and cutting for firewood have resulted in declining fertility of upland region and erosion of surface soils. Water previously captured for gradual release by the soil, washes down the slopes, excavating and transporting soil particles that cannot withstand its enormous energies. The banks of rivers and streams are tipped and surrounding areas are flooded with periodic regularity. Water run-off from denuded uplands is heavily loaded with silt which fills lakes and reservoirs, chokes irrigation channels, alters estuaries and coastal swamps, clogs hydroelectric generation machinery and diminishes water quality. Lack of rainfall retention also means that supplies of water to the paddy fields have become unreliable.

Thus problems of water and land use are interdependent. The storage, regulation and quality of waterflows are crucial determinants of land use possibilities, in Southeast Asia as elsewhere.

Southeast Asia's aquatic resources embrace fish ponds for fresh water fisheries as well as the whole range of marine resources. The fish ponds are important actual and potential sources of protein. Yet there is a great lack of information on the spawning habits, locations, annual migrations, growth and mortality rates in regard to fresh water fisheries. Ecological problems have come to the fore: Indonesian farm ponds, for example, suffer presently from low productivity due to the destructive effects of agricultural pesticides on their populations.

The seas of Southeast Asia are collectively one of the world's richest marine ecosystems. The Philippines' and Indonesian seas occupy an area which is a multiple of their land and so is their organic productivity per unit. Their vast wealth is threatened by human activities on the rivers, estuaries and swamps that feed it as well as by those on the continental shelf, viz. offshore oil and mining activities, oil spills, waste disposal and ocean transportation. Aquatic resources may well turn out to be our main "line of defense" in terms of food adequacy in the face of population

pressures. In addition there are a number of economically valuable pharmaceutical products that can be obtained from cultivated stocks of molluscs and other invertebrates. It seems plausible also that the deep ocean waters that form parts of the Philippines' and Indonesian territories contain seabed minerals, i.e. the manganese nodules with the large amounts of copper, nickel and cobalt. Much more understanding of our aquatic environment is essential for its appropriate protection as well as for the planning of our region's development.

In view of the growing importance of marine resources, I would be amiss if on this occasion I should fail to emphasize again the significance of the "principle of the archipelago" in international law and its vital importance to archipelago nation-states. The Philippines and Indonesia are archipelago states. The policy implications of this important geographical fact were set forth in clear terms by the delegation of the two governments at successive conferences on the Law of the Sea. These policy implications are dual. The imperatives of political integrity and social stability of the archipelago nation require on the one hand that it must exercise the full attributes of sovereignty over all the seas contained within its archipelagic waters — defined as all those waters around, between and connecting the islands constituting the state, regardless of their width. On the other hand, all archipelago states must recognize and assure the rights of all nations to the safe and tranquil innocent use of sea lanes, especially for normal commercial transit.

We are deeply aware of our responsibilities under that second proviso which arises from the fact that the archipelagos which constitute our countries lie astride the routes of passage between two of the great oceans of the world. However, I would also stress the equally basic fact that the proper guarantee of innocent passage for the ships of all nations itself requires the actuality of the first condition: full exercise of sovereignty by the archipelago state concerned. If it does not or cannot take full sovereign responsibility, which other nation can, or will, or should? It is the nation whose people and economic activities are in and about the seas involved. It is the nation whose self-interest in maintaining peace on its surrounding and enclosed seas is clearly greatest.

Furthermore, in the case of both the Philippines and Indonesia, at least, they will be the countries which supervise and will be responsible for any marine activities in their archipelago seas: off-shore oil exploration and production, fishing activities, deep sea minerals exploitation, and so forth. This is because the principle of 200 mile economic zones has been accepted and no island of either country is more than two hundred miles from the next nearest island of that country. It means that supervisory jurisdiction over economic activities in the respective archipelagic seas will be exercised by the two countries. Many activities of economic relevance can have adverse affects on both *the environment and the safety of sea lanes*. Therefore it is necessary for the same authority to exercise the law and order function and other attributes of sovereignty (including the establishment and enforcement of navigation rules) as the authority which supervises the *marine productive activities* in the same waters if conflict or, equally undesirable, a vacuum is to be avoided and the legitimate interests of other countries are to be protected. After all, in a very important and relevant sense any activity in archipelago waters takes place inside the archipelago nation.

In this context it is urgent that member countries of ASEAN agree on the formulation and the implementation of regional policies. Sustained yield of marine resources is a function of fishing effort. Too much fishing effort permitted by one country within its own off-shore economic zone can reduce, and in the extreme, eliminate production for all countries including the original culprit. Serious adverse problems can arise for each country by a continued absence of an active and collaborative policy to manage marine resources.

ECONOMICS AND THE ECOSYSTEM

Rapid economic expansion and the development of natural resources are likely to continue over the next few decades. During the remainder of this century, man will use as much of the earth's resources and tap as much energy as he has during the whole previous course of human evolution. In the light of observations in the preceding sections, it is therefore mandatory that the new directions of growth and the changes of development patterns

must include environment considerations. Environmental impact assessment must be made part and parcel of the evaluation of major development proposals in the public and the private sectors.⁹

Views alleging that economic systems aim to optimize gains over the short term, while on the other hand ecological considerations suggest ways to minimize liabilities over the long run, if those ever had validity, must surely be cast aside. Disagreements between economists and ecologists may have hinged on their differing perspective of time. The present world situation and our perspective of the future must have, or should have, eliminated such differences. Our present decisions and actions affect for better or worse the pattern of our societies throughout the remainder of this century and well beyond. This forces us to ask ourselves continuously what the major implications and ramifications are of current policies and programmes to the shape of the distant future. Conversely perspectives of the future, even as mere glimpses, help us to envisage the magnitudes of its requirements as preconditions for human existence. They provide the needed additional dimensions to the context within which we must take action now or in the immediate term to ensure that future requirements can be met. The political and economic bases for action are no longer tuned to the immediate and short range influences of the so-called "market place".

In operational terms this means that much of what once was conventionally considered as social expenditures for environment conservation must be included in the cost of investment. The concept of cost-benefit analysis must be expanded so as to incorporate relevant and appropriate measures for environment protection and its inherent cost components. It is important to keep in mind that threats to the balance of ecosystems are seen in the advanced countries as a consequence of rapid but inadequately controlled development ("pollution of affluence") while the disturbances to such balance in the developing world are caused by lack of development ("pollution of poverty"). In view of the need to accelerate development over a widening range of human activities that involves increased resource use, policies for resource development in developing countries must therefore be directed at the ap

⁹ *Environmental Impact Assessment: Principles and Procedures*, SCOPE Report 5, International Council of Scientific Unions, Toronto 1975

appropriate management of forestry resources and timber extraction, aquatic resources, watersheds, water use and water control systems, soil regeneration and land restoration.

As the continued demand for energy fuels, mineral ores and industrial raw materials unavoidably affect the living environment, it is also time to dispense with another conventional distinction, which is between renewable and depletable resources. I would suggest that for practical purposes of resource policies all resources be considered non-renewable. This is necessary to maintain a persistent policy alert in respect to the economic, social and political dangers of ecological overstress and must not be taken to mean as a veto on growth. The success of resource policies and programmes depends on the extent to which scientific knowledge is applied in their formulation and on the ability of governments to control their implementation in accordance with viable plans.¹⁰ Here we see that the constraints on effective resource management are also those which constrain rates of economic and social progress. The development of national institutional capabilities is essential for environmental management, welfare and equity.

For the adherence to environmental control and to ensure equitable benefits to the people concerned the developing nations, in whose areas many of the required resources happen to be located, will have to rely primarily on their own nation states. The development of resources of energy, minerals and industrial raw materials is being done in collaborative arrangements of one kind or another with international corporations. I have on previous occasions refrained from a prioristic value judgements on multinational corporations. I reiterate that they are facts of life in the international economy, neither intrinsically good nor a priori bad. Yet, time and again it can be observed that left to themselves, in quest for profit maximization and in zealous adherence to corporate efficiency, multi-national corporation are prone to extensive abuses of ecology and environment. There is no other recourse than the respective nation-states to enforce policies for ensuring yields in perpetuity from the nation's actual and potential assets.

¹⁰ Conway and Romin, op. cit.

INVENTORY AND EVALUATION OF NATURAL RESOURCES

Of particular importance and urgent relevance is a comprehensive inventory and a proper evaluation of natural resources.¹¹ This is almost a precondition for governments of developing countries to enhance their capability for the formulation and enforcement of resource policies. Such an undertaking would also provide the bridging link between economic and ecological considerations within development strategies. The concept of resources is a dynamic one: many things become resources over time.¹² Each century has seen new resources emerge. Yet our knowledge and understanding of existing global resources have remained by and large very hazy. That pertains in particular to the situation in developing countries. In the coming decades the political economy of international relations will centre on the role and relative importance of materials resources. Considerations of resource policy and resource management will largely determine the behaviour of nation states on the domestic level and in external affairs. The big and powerful nations and the small and weak alike, the industrially advanced and the developing countries, the resource rich and the resource poor, — we see all of them engaged in ceaseless exhortations for a “rational approach” to resource policies. Without fail, each of them is prone to give a different interpretation of what such a rationality entails. It would seem to me that the undertaking of a comprehensive inventory of resources and a detached impartial evaluation of their future potential, constitute a field where international cooperation is urgently required. The advanced technologies developed by the industrial societies can be of invaluable assistance to governments of developing countries in their efforts to ascertain their resource potential on a more factual basis, provided always that such assistance is designed to develop and improve the national capabilities of developing countries to conduct and extend their own resource inventory. In such a context the results of cooperative endeavours, reinforced and supplemented by regional arrangements, will generate a

11 This and the following section on technology contain a modified and abbreviated version of views expounded in a previous paper by the author: *Research, Science and Technology in the Context of Development Patterns*, Royal Tropical Institute, Amsterdam, November 1975

12 I.B.R.D., *Report on the Limits to Growth*, Washington, D.C., September 1972

shared knowledge and enhance a better understanding of the world's resource potential. Both the developing and the developed nations stand to gain. This in turn may contribute to some workable consensus as to the desired rationality in resource policy. Appropriate modalities for collaborative arrangements in resource inventory could mitigate the acrimonious postures of confrontation between resource-owning and resource-searching countries. Hopefully in the little time left to mankind, inclinations towards confrontation (ever latent where resources are concerned) may give way to accommodation on mutually acceptable terms of equity.

RESEARCH, SCIENCE AND TECHNOLOGY

Within the frame of the above problems and problem areas, the challenge for research, science and technology centers around such questions as: how to produce goods and to provide services with less material (the application of Malenbaum's concept¹³ of the "intensity-of-use coefficients" with relative shifts from "quantity inputs" to "quality inputs"); how to substitute materials that are common for those that are scarce; how to get desired results with less energy; how to obtain that energy from sources other than from and supplementary to fossil fuels, and the like.¹⁴ To the extent that the time dimension in the implementation of the relative inventions is crucial, then everything that is done to hasten invention will pay off. For example, to return for a moment to the firewood crisis as this affects the world's poor and a large part of the world population, two long term alternatives where the processes must be accelerated by intensified research, cost reduction and extended application are *solar energy* for cooking and heating and the *bio-gas plants* capable of securing both gaseous fuel and organic manure from cattle dung and night soil through the process of fermentation in generating chambers specially made for the purpose and developed in India, but still in an experimental stage.¹⁵

13 Wilfred Malenbaum, *Materials Requirements in the United States and Abroad in the Year 2000*, Washington, D.C., March 1973

14 Nathan Keyfitz, *op. cit.*

15 In the meantime wood-producing programmes will have to undertaken on a far greater scale than governments presently conceive. For many regions fast growing tree varieties are available that can be culled for firewood within the span of a decade.

It must be realized that "technology" and its "transfer" have little meaning judged by the criteria of social relevance and impact, unless it is linked to the other sequels of the cycle that comprise education — science — research — technology. The crux of the problem and the fundamental challenge to governments of developing societies is to develop that cycle in an appropriate "system". In turn the system's appropriateness will be determined by its functioning as a supportive "sub-system" within a larger context of development policies, programmes and priorities. There is essentially no dichotomy between the presence and development of "fundamental" or "pure" science and research and those of their applied versions. By the same token technologies of the advanced and the adaptive (appropriate, intermediate) kinds are not mutually exclusive in the context of development patterns. They are both necessary and should be made to complement one another, if research, science and technology are expected to generate any impact at all on the furtherance of development objectives. The most important serious constraint lies in the limited availability of manpower in scientific research, both in quantity and quality. First and foremost, the creation of an effective research community is the overriding objective. This holds true to circumstances prevailing in most developing countries, whether or not they are endowed with natural resources.

It is a fallacy to assume that we can do without some of the latest advances in technology. Developing nations need to further their capability in advanced research and science and to adopt advanced technology, at least in selected areas. For certain productive sectors, vitally important to growth acceleration, there are in fact no alternatives. In concrete terms let me only mention geology, geophysics, and geochemistry, biology and biochemistry, metallurgy and mineral technology; the application of space technology to assess vegetation, earth, water and marine resources; research in the climatological aspects of meteorology as there seems to be ongoing atmospheric changes of a structural nature in monsoon areas, thus directly affecting food and other crops as well as habitation. In a great number of cases, of course, scientific research and technology originating in advanced countries need to be adapted to prevailing conditions and requirements. Adaptive

technology¹⁶ must take into particular consideration the quantity and quality of available labour, the need to use local materials, and the likely effects on the balance of external payments, while aiming at the adherence to standards of quantity and quality of output. As an illustration, research and adaptive technology involve post-harvest activities in the agricultural sector (storage, processing, distribution) agro-based industrial development, the development of suitable building material for cheap housing, and the like.

In view of what has been said about the natural resources, prime attention must also be given to the adoption and the application of what may be called "protective" technology in order to conserve natural resources and restore and regenerate to the extent feasible the resources already depleted. It includes, but is not limited to preharvest technologies pertinent to soil conditions and water technologies in arid lands. The relevance of protective technology needs to be emphasized consistently and persistently, for the present, for the medium term and for the longer run.

¹⁶ The discussions and contributions so far on what are described as "intermediate" or "appropriate" technology have suffered from excessive generalizations and failure to go deeply in to the specifics of problems and possibilities. It would be useful, for example, to disaggregate processes involved in the manufacture of various products and determine which of the processes are amenable to such adaptation of technology and what difference, if any, it would make to the quality of the product.

COMMODITY PRICE STABILITY

J. PANGLAYKIM

Commodity Price Stability is a broad and complex subject. Perhaps the first aspect demanding attention in any attempt to analyze the subject is that of the causes of instability on the commodities market. It involves such issues as: the significance of commodities for the developing countries; long, middle, and short-term influences on commodity production and prices; the degrees of monopoly and monopsony exercised by the producers, traders, and suppliers of commodities, and so forth. Other important aspects that must be considered include commodity controls and national devices. At both the regional and the international levels we encounter cooperative efforts in such forms as buffer funds, producer associations (e.g. rubber), and multilateral contracts.

In general the attentions of analysts and writers in the field of commodities are directed primarily towards such aspects as those listed above. The problems associated with monopoly and monopsony in the commodity trade, for example, are frequently studied. However it is our observation that the subject of developing country commodities is rarely considered in terms of the institutional approach. By adopting an institutional approach in this paper, we intend to lead the discussion into the concrete field of business and to consider business activities in institutional terms. When we speak of the phenomena of monopoly and monopsony, we will be considering the theory of one group of large companies functioning as the buyer and another group of large companies functioning as the supplier. In order to obtain comparative data and material for discussion, we are particularly interested in studying organizational and structural characteristics of companies operating in the field of commodity trade/production. Most of our data and material are gathered in Indonesia, although it is supplemented by a variety of experiences in other areas.

COMMODITIES AND THE ASEAN STATES

Those foodstuffs and industrial raw materials sold on the world market by ASEAN member states are shown in table I. With the notable exception of Singapore, the ASEAN states are highly dependent upon export earnings as a source of foreign exchange. Singapore, of course, imports most of its raw materials from its ASEAN neighbours, although the bulk of its oil imports come from the Middle East. For Indonesia, oil and timber are extremely vital sources of foreign exchange, while the main sources for Malaysia are rubber, timber, tin and palm oil. Major exports from Thailand are rice, maize, tapioca, and rubber, while the Philippines relies heavily upon sugar, copper and timber. Four

Table 1

1974 - US\$ MILLION					
Industrial & Food	Indonesia	Malaysia	Thailand	Philippines	Singapore
1. Crude Oil & Product	5,309	292			
2. Processed Petroleum					1,581
3. Rubber	487	1,249	247		
4. Processed Rubber					880
5. Tin Ore & Construction	170	656			
6. Logs & Timber	725	663			
7. Wood				237	
8. Copper				389	
9. Hemp				37	
10. Kenaf			41		
11. Palm Oil & Palm Kernel	175	470			
12. Coffee	101				
13. Sugar				389	
14. Corn			293		
15. Tapioca			188		
16. Rice			480		
17. Tobacco	36				
18. Tea	44				

Source: *International Financial Statistics*, July 1975 and Indonesian Government Sources

members of the ASEAN group produce significant quantities of timber and rubber, which is considered an important industrial raw material, — and only a small proportion of the exports of these two commodities is processed in or transferred via Singapore.

Table II reveals the trade balances and foreign exchange reserve situations for each ASEAN member state as at the end of 1974. It appears probable that foreign exchange reserves will deteriorate from the levels attained at end 1974, due to the continual decline in the production of industrial raw materials manifested since then. Although oil prices have risen, demand for this commodity is declining as a consequence of economic depression in the industrial states. Indonesian oil exports continue to increase, and Indonesia is the most significant oil exporter in the ASEAN group. Singapore is the largest importer in the region, although the bulk of that country's imports are re-exported, to Indonesia for example, where businessmen open L/Cs via Singapore yet have their goods sent direct to Indonesia, a procedure that is officially recorded as a purchase via Singapore.

Table II

1974 — US\$ MILLION

Country	Export	Import	Reserves	Per capita income
Indonesia	7,361	3,367	1,492	100
Malaysia	4,409	4,071	1,618	462
Thailand	2,469	2,808	1,855	197
Philippines	2,671	3,115	1,504	185
Singapore	6,128	8,287	1,765	1,566

Source: *International Financial Statistics*, MAS Quarterly Bulletin Vol. 2 No. 4

Table III depicts the pattern of trade of one ASEAN member, namely Indonesia. As can be seen, Indonesian exports of raw materials are purchased by three main buyers — Japan (53.4%), United States (21.3%), and Singapore (12% — the bulk of which is ultimately re-exported to Japan). As the major purchaser of Indonesian exports of raw materials, Japan is of vital significance for Indonesia, and any developments in the Japanese economy exert an effect upon Indonesian foreign exchange position. In varying degrees, Malaysia and Thailand manifest similar dependence upon

Japan. The difficulties inherent in this situation assume greater magnitude by virtue of the operation of the Japanese "package deal" system, a system designed to enable Japan to establish a "grip" or leverage upon the supply of raw materials from the ASEAN countries. The various types of "package deal", such as working capital, credits for machinery and so forth, make it feasible for Japan, as the largest market for the area's exports, to control the logistics of the area.

Table III

PATTERN OF TRADE — INDONESIA

	Export	Import
<i>Asia:</i>	66.0	55.2
Japan	(53.4)	(29.4)
Others (Singapore)	(12.6)	(25.8)
<i>Africa</i>	0.3	0.6
<i>Australia & Oceania</i>	0.3	3.7
<i>America:</i>	27.3	17.3
USA	(21.3)	(15.9)
Others	(6.0)	(1.4)
<i>Europe</i>	6.1	23.2

Table IV presents a break-down of Indonesian exports by commodity and indicates the foreign exchange significance of each item. We can observe that Indonesia's foreign exchange earnings are basically determined by three types of industrial raw material. Oil, timber and rubber together generate approximately 88.1% of Indonesia's foreign exchange earnings, with oil alone accounting for 71.4%. These figures highlight the extremely important position of oil in the Indonesian economy.

A decline of only 10% in the demand for Indonesian oil has meant a loss of US\$ 500 million to that country. A very serious decline in earnings from timber has also taken place — the fall in timber prices, from an average US\$ 75-80 per cubic metre to the current average of US\$ 40-42, has resulted in a drop of about 50%, or US\$ 360 million, in Indonesia's foreign exchange earnings from timber exports. Bearing in mind the falling price of rubber as well, it is quite possible that Indonesia's foreign exchange earnings will fall by a figure in the vicinity of US\$ 1 billion, an amount of great

significance for the financing of Indonesian development. This Indonesian example demonstrated the fundamental importance of price and demand stability for the ASEAN states in general.

Table IV

INDONESIA & OF TOTAL EXPORT	
	1974
1. Oil	71.4%
2. Lumber	10.0%
3. Rubber	6.7%
4. Palm Oil	2.3%
5. Tin	2.2%
6. Coffee	1.4%
7. Tea	0.6%
8. Tobacco	0.5%
9. Palm Kernel	0.1%
10. Others	4.5%

Having seen, albeit in very broad outline, the nature and extent of the dependence of Indonesia and the other ASEAN states upon markets in several industrial states, let us now turn to a problem that is closer and more directly felt by commodity exporters. We wish to direct attention to the institutional aspects of Indonesian and Japanese activities, because we feel that these aspects have not been sufficiently studied.

THE INDONESIAN COMMODITY TRADE

Producers of industrial and food commodities (such as rubber, coffee, tea, and such like) comprise a large proportion of the Indonesian people. The processes by which such products are collected and marketed as exports are such that the small producer receives only a small portion of export earnings. Because the small producers are geographically dispersed and generally lack adequate understanding of, and data about, the operations of the national and international markets, they tend to remain dependent upon urban-based traders in the large, middle, and small cities and towns.

In turn, the traders, whether based in large cities or small provincial towns, are themselves dependent upon a third party, sometimes domestic, or foreign. The traders require prefinancing to enable them to collect the commodity from the dispersed producers and prepare it for export. Such prefinancing may be obtained in part from state and private (both domestic and foreign) banks, and, for those with sufficient credit-rating abroad, may in part also be obtained through the "Red Clause L/C" system. However raised, the need for prefinancing means that exporters are dependent upon several large foreign buyers with sufficient financial support from the banks. In other words, both the small-scale producers of products such as rubber, tea, coffee, gapek, cattle-food, etc., and the exporters of those products, are equally dependent upon the large foreign buyers, and are also, therefore, dependent for payment upon money transferred, in one way or another, from abroad.

The trade in commodities such as small-holder's rubber is in the hands of small and medium-sized businesses, yet these numerous, relatively-small traders must confront big foreign buyers backed by powerful financial resources. Plantation production is mainly controlled by state enterprises and therefore in a good position to obtain sufficient assistance from the state banks. The mining sector is also, to a large extent, dominated by state enterprises such as Pertamina (oil), PN Timah (tin), and PN Aneka Tambang (iron sands, bauxite, etc.) — the companies operating in this sector are generally much larger and financially much stronger than those in the first category. For present purposes, it is precisely those in the first category — the "people's production" (*hasil rakyat*) sector, which supplies the world with industrial raw materials and upon which rest the fate of millions of small-scale producers—which we wish to consider.

COMPANY STRUCTURE AND ORGANIZATION

When we apply international standards in assessing companies in Indonesia, and perhaps in ASEAN countries in general, it is apparent that such companies range from medium-sized to small. In general, Indonesian companies are owned by a family or a limited number of small groups. In terms of managerial structure and organization, most of such companies are run by non-professionals,

usually personal friends or the owners themselves. In other words, our raw materials are sold to the giant international dealers by medium-sized or small local companies enjoying only limited access to international financial markets and usually with limited and partial knowledge of international market dynamics. Because the bulk of our exports are directed to Japan, it is only realistic to focus specific attention on our trade relationship with that country.

Consider the situation with respect to timber exports. Literally hundreds of small Indonesian timber companies confront a Japanese market controlled by perhaps no more than ten Japanese giants. This situation is further complicated by the existence of intricate links between the small Indonesian firms and large foreign ones. Those links are thus dependent upon the large firms for the supply of equipment, spare-parts, and even working capital. Although on paper Indonesian entrepreneurs own the concessions for timber exploitation, in practice their bargaining position is extremely weak because the market is completely dominated by the ten large Japanese firms. Thus even though prevailing market prices may be good, the nature of the relationship between supplier and buyer is such that the larger part of the profits falls into the hands of the large foreign firms.

A fact frequently overlooked in discussions about the Indonesian-Japanese timber trade is that the ten Japanese corporate giants involved form a conglomerate which offers a wide range of commodities on the international market. They deal not only in timber, but also in rubber, iron sands, oil, bauxite, and a whole list of diverse commodities that they import from a number of countries, and they can therefore provide a full range of services to consumers, not only in Japan, but throughout the world. In order to comprehend the enormous scope of such corporations, it would be necessary to also consider the services they both provide and enjoy in a comprehensive range of trade-related activities, such as finance, shipping, insurance, technology, market research, advertising, all coordinated through their international organizational network.

What this means in practise is that, although Japan sincerely offers foreign aid and proposes schemes for price stabilization which, when considered in macro-economic terms, would appear to be of positive significance for raw material exporters, when the

same proposals are seen in institutional terms there can be little doubt that the dominant position of the ten Japanese giants will remain undisturbed. In our dealings with the industrial states, and in particular with Japan, we must not lose sight of basic realities such as these.

Given these hard realities of the raw material trade, we would be poorly advised to continue to think and to operate only in terms of small and medium-scale business. We cannot hope to compete, in any realistic sense of the term, with the giant corporations of the world so long as we continue to think in shopkeeping terms. Our bargaining position will always be weak, and we will continue to be on the losing side irrespective of prevailing market conditions. If the raw-material producing countries cannot develop the organizational and business capacity necessary to enable us to combine our raw-material trading with the provision of business services and thereby offer an array of goods and services comparable to those currently offered by the ten Japanese giants, then we will not succeed in increasing our earnings from this sector or in improving the lot of the small-scale producers. Whether we succeed or fail in meeting this challenge will depend to a significant degree upon the extent to which our respective governments comprehend the situation and actively support the necessary responses.

W.W. ROSTOW'S CONCEPT OF "PARTNERSHIP"

In his writings, Rostow seeks to devise ways to replace the politics of confrontation with those of partnership. The type of partnership envisaged by Rostow may be summarized schematically as follows:

- (1) A truly common objective must be formulated. "... the common task is to generate the resource expansion, conservation and new technologies which will permit the early comers to industrialization to evolve constructively while permitting them to develop fully their own versions of fully modernized societies".
- (2) The OECD member-states must restore full-employment and an orderly economic growth, because the economic development of the raw-material producing countries is, to a high degree, dependent upon the economic health of the industrial states.

- (3) "The OECD world must, in conjunction with oil producers of small populations countries, supply large and regular additional flows of foreign aid on a long term basis to those hardest hit by the price revolution".
- (4) Large scale cooperative efforts must be undertaken in order to increase food production in the developing countries.
- (5) Birth control in the developing countries must be given top priority and must be seriously implemented.
- (6) "... We must come to a more general bargain centered on the research and development capacities of the North, and the raw material resources of the South".

Rostow's proposed "partnership" is conceived entirely in macro-economic terms as a scheme for inter-governmental cooperation that would lay the foundations for a New International Economic Order. But we all know that agreements and achievements at the macro level do not necessarily generate benefits to those operating at the micro level. Imbalances at the micro level, i.e. at the national level, can reduce, even negate entirely, the benefits worked out by theoreticians at the macro level.

This observation is not intended in any way to detract from the valuable conceptual work done by Rostow and other thinkers involved in the attempt to formulate a New International Economic Order. Our point is merely that the carefully conceived plans for a NIEO will stand little chance of being realized and of producing real benefits for the developing countries if the micro aspects do not receive special and serious attention. In this context, it is vitally important that national governments devise policies to facilitate the development of larger, more efficient, and more effective companies in the field of food and industrial raw-materials production and marketing. This is to say that the developing countries must develop the capacity to keep up with international trends, for it is evident that we must have our own large-scale organizations in the fields of banking, assurance, shipping, trading and so forth if our efforts to raise the level of prosperity in our countries are to bear fruit.

The tide of anti-business sentiment growing in Great Britain, America and Australia has caused considerable economic regression in those countries, thereby exerting a strong negative influence upon living standards, productivity, and the capacity for

future economic development. Norman Macrae, writing in *The Economist* of 25 October 1975, claimed that even business has begun to be bureaucratized and to lose its dynamism; perhaps an even more ominous phenomenon is the appearance and increasing influence in the West, particularly in the United States, of anti-growth and anti-business attitudes and arguments, in defiance of the fact that the credit for bringing about the level of prosperity enjoyed in those countries clearly belongs to the entrepreneurs who pioneered the growth of large companies. It may well be the appearance of such negative ideas and sentiments in Japan which accounts for the indications in that country that the government, which is fundamentally based on the support of big business, is beginning to adopt positions and attitudes at variance with those of the business community. Such views are becoming increasingly widespread because of the attention they receive in the press, the support they get from intellectuals and theoreticians who exaggerate environmental problems and lay the sole blame for those problems at the door of big business. Macrae goes on to declare that if a country begins to regard its businessmen as enemies, then that country is bound to decline, such as is the case in the U.K., and perhaps also in Australia. For Macrae, business represents the force primarily responsible for the high standards of living and wellbeing achieved in the West.

It is our opinion that the institutional aspect of development demands much greater attention and priority in the developing countries that it has so far received. ASEAN countries must create organizations and units of sufficient size and efficiency, and with sufficient support from the various service institutions essential for modern business, as to enable private enterprise to contribute as an equal partner to the realization of concepts such as those proposed by Rostow.

Unless the existing pattern of atomistic business is fundamentally restructured and reorganized, the business community will not be able to function as an equal partner to the government. If the necessary changes are not carried through, then agreements and partnerships established at the macro level will always be in danger of being undermined by the instability and conflict characteristic of the situation at the micro level. This is the challenge confronting the leaders of the business communities in the ASEAN countries: if we are to once and for all rise above the level of

nepotistic cliques and incestuous petty business groups, we must commit ourselves to develop our enterprises into larger, more efficient bodies under the leadership of professionals. And we must seek to achieve this in substance and not merely in form.

CONCLUSION

We have seen how heavily dependent the ASEAN countries are upon the sale of industrial raw materials and foodstuffs. Countries such as Indonesia, Thailand, Malaysia and the Philippines, are dependent upon commodities such as rubber and tin, while Singapore absorbs some of these products for processing and subsequent sale on the international market. Price fluctuations and demand instability can wreck the implementation of development plans and can bring poverty to the small-scale producers scattered throughout the ASEAN area, and particularly in Indonesia.

Small-scale producers and medium and small businesses are, in many respects, dependent upon, and therefore in a weak bargaining position relative to, the foreign buyers of their produce. These foreign buyers are generally well-organized in big, and sometimes giant, corporations, a characteristic which is starkly apparent in the case of Japanese-Indonesian trade relations.

Techniques such as the package deal have effectively served to bind Indonesian producers to a small number of Japanese buyers. The disproportionate strength of the big foreign corporations in comparison with most ASEAN business enterprises can jeopardize the successful operations of any partnership arrived at the macro level.

Rostow's concept of partnership may be acceptable to both the industrial and the supplying nations within the framework of achieving consensus on a common objective. However, if the supplying countries do not succeed in developing efficient and effective organizations necessary in order to establish a reasonable degree of bargaining power, and if the governments in the ASEAN countries do not grant priority to this requirement, then not only will the realization of the ASEAN concept be impeded, but also the type of macro-level partnership envisaged by Rostow will be rendered inoperable and unproductive.

These issues pose serious challenges to the entrepreneurs and businessmen of Asia. If we fail to comprehend the significance of these problems, and if we do not generate among ourselves the awareness required to take prompt action in response to these challenges, the prospects are that the fruits of anything we achieve in the ASEAN area will be enjoyed primarily by the great corporations of the industrial states, particularly Japan.

COMMODITIES AND VIABLE ECONOMIC SECTORS – A POSSIBLE BASIS FOR DEVELOPMENT PLANNING

A.R. SOEHOED

INTRODUCTION

Following the period of rehabilitation and stabilization of 1967-1968, the Indonesian Government commenced drawing up a series of five-year development plans.

Examination of the first two five year plans, respectively Pelita I (1969-1974) and Pelita II (1974-1979), reveals their essential nature as lists of goals to be attained, compiled on the basis of assessments of the mobilizable potential of the society.

These assessments of potential were based on the experiences of each government department, a procedure which – by virtue of the fact that departments are rather closely bound in terms of their areas of authority – resulted in a pattern of development strongly characterized by a tendency towards centralization and by divisions reflecting those of the vertical administrative structure of the state.

Although an obvious shift of emphasis took place with the transition from Pelita I to Pelita II, with the second plan paying more attention to regional aspects than the first, in terms of implementation it appears that optimal utilization and development of existing socio-economic potentials is not likely to be attained, a shortcoming due, in part, to departmental administrative limitations and to the low level of inter-relationship and interaction among the regions.

Contradictions between, for example, monetary and industrial policies as well as between industrial and trade policies and the apparent lack of synchronisation in the development of the infrastructural requirements for regional plantation and agricultural development, appear to reflect the inadequate level of co-ordination and interaction among socio-economic forces. Given such coordination and interaction, better results could be achieved in a shorter time.

So far, coordination and interaction has been sought on an ad-hoc basis by such means as the establishment of interdepartmental committees and special teams. Not infrequently, these ad-hoc measures fail to achieve the desired goals caused by mutually antagonistic viewpoints coming to the surface, differences of opinion that are primarily due to fundamental differences of approach and interpretation among the parties involved.

Of course, the practical impossibility of devising a plan capable of fully mobilizing all natural and social resources must be acknowledged. Indeed, attempts to draw up and implement such a total plan would themselves result in the resurgence of unhealthy overcentralization.

It is intended in this paper to propose an approach to development planning which takes as its point of departure the allocation of priority to the utilization and development of specific potentials within Indonesia's own society and environment.

Basically, the process of allocation of priorities suggested in this paper relates to particular commodities and sectors of the economy which, by virtue of their specific character, their geographical position, and other special considerations, may most effectively produce development-generating effects.

It is anticipated that the forces released by the priority exploitation of these particular commodities of economic sectors would, in turn, enable the achievement of a satisfactory overall rate of acceleration in Indonesia's development.

Before turning to the exposition of this planning approach, a general survey will be presented of several of the socio-economic potentials worthy of receiving priority.

AN APPROACH BASED ON THE PRIORITY DEVELOPMENT OF SECTORS WITH HIGH GENERATING POTENTIAL

Indonesia is well known as a source of industrial materials and agricultural products enjoying a fairly strong position in the world market. Indonesians are renowned as a people capable of easily absorbing knowledge and acquiring skills when provided with the right leadership.

There are, among Indonesia's natural resources, several commodities which are in high demand in the contemporary world market, such as oil, natural gas, and timber. There are also resources which, if exploited properly, could become as important as oil, gas and timber.

Up until now, however, with the exception of the oil and gas sector and the small-scale agricultural sector, there does not appear to have been any special measures taken to prepare the way for the type of long-term exploitation that would allow natural resources to provide the foundation stones for rapid development towards the level of national "take off".

Only oil and gas have so far received the specific long-term attention required to develop those resources to the point at which they function as powerful bases for development, with the result that they are now by far the strongest single supporting pillar.

The oil and gas industry has established a framework of supporting enterprises and services that represents a major investment in terms of expertise, skills, equipment and capital. The increased national production capacity brought about by the oil industry is of considerable significance for future development.

It is unfortunate that some recent unfortunate incidents in the oil industry have detracted some of the positive achievements of the industry, however it seems probable that carefully considered government action will succeed in restoring the role of the industry in the long term development strategy.

In the agricultural field, small-scale farming and village development have indeed made convincing progress as socio-economic factors, but much still remains to be done in the development of food production.

The infrastructural requirements for agricultural development are extremely expensive, while agriculture itself does not produce quick results for either those directly involved in it or the society in general.

These limiting factors, plus the shortage of capital, pose problems that require unique solutions.

Certain industrial sectors, such as electronics, tools and components, machinery and also textiles, have convincing prospects in view of their potential market in Indonesia, their labor-intensive nature, and their potential for expansion. However, the prospects for these industries are limited by the current low purchasing power of Indonesians — particularly of the rural society, which is heavily dependent upon agriculture — and by the availability of industrial raw materials from internal sources.

Within these limitations the growth of secondary industry and manufacturing, both foreign and locally financed, may be described as satisfactory. Their future development, however, will depend upon the degree to which the obstacles to their expansion are to be overcome.

The picture presented above clearly indicates the need to increase rural income (purchasing-power) and to direct industrial development towards basic industries (planning for industrialization).

For the moment, this analysis will be limited to the problem of industrial development, including mining and agro-industry.

Steps towards the establishment of raw material processing industries have already been taken by foreign enterprises in Indonesia, however, the incapability of Indonesian entrepreneurs to counter-balance the foreign partners in such industries is glaringly apparent.

This situation could very easily give rise to foreign domination, both vertically and horizontally, within certain sectors, such as, for example, would be the case if foreign interest exercised control over both the textile industry and the synthetic fibre industry.

Given the currently inadequate capabilities of national private enterprise, the necessity for the government to play a role in some sectors is clearly apparent, not merely because of the possibilities

that exist for direct commercial profit for the government, but more particularly because of politicostrategic considerations involving the need to preserve some shareholding in the interest of the national economy and the need to create the conditions as well as the foundations, for the future development of the national economy itself.

Under prevailing conditions, characterized by the limited availability of both funds and experienced skilled personnel, the utilization of both funds and personnel must be conducted with maximum efficiency.

With these objectives in mind the government should obviously exert a degree of direct influence over the process of development of existing potential. The governmental role in this connection could perhaps include the selection of enterprises over which it wishes to exert influence on the basis of priorities determined by the following considerations:

- (a) the short-term and long-term value of each commodity on the world market;
- (b) the short-term and long-term significance of each commodity for the growth of national productivity;
- (c) the social and political implications of both the exploitation of each commodity and natural resource and the development of related industries;
- (d) the possibilities for raising the funds required for the exploitation of each commodity and the growth of the relevant commodity-related sectors of the economy;
- (e) the implications of the exploitation and processing of each commodity for the national balance-of-payments, particularly in terms of capital requirements for sustained development of the sector concerned.

Taking the above points as the basis for consideration, a list of commodities with good potential, and of economic sectors which are sufficiently convincing when considered in terms of the time span required for their development, may be compiled in order of priority as follows:

- (1) the oil, natural gas and petrochemical sector;
- (2) the non-oil mining and minerals-processing sector;
- (3) the forestry and forest products sector;
- (4) the iron and steel and heavy industry (engineering);
- (5) basic chemicals and silicate-based industries;
- (6) plantations for industrial raw materials;
- (7) large scale agriculture for foodcrops;
- (8) those industrial sectors producing sufficient socio-economic benefits.

The above list of priorities is not intended to be final or absolute, rather it must be tested against the feasibility of developing each sector concerned in terms of achieving results, as rapidly as possible, that will impact favourably upon overall national development and upon the development of the priority sectors themselves.

The determination of sectoral priorities should not result in the neglect of any particular sector or sectors, but should be conducted with a view to ensuring that, as far as possible, the development of non-priority sectors is in harmony with that of the priority sectors.

Finally, these priorities should be kept under continual surveillance, and be subject to regular review, to ensure that modifications be made as necessary.

In order to give a clearer indication of the purpose and significance of the planning approach proposed in this paper, several of the proposed priority sectors will be considered in more detail below, together with the role that government could play with respect to them.

As conceived, the proposed process for determining priorities should facilitate the establishment of interdepartmental relationships based on a commonly understood strategy and set of goals.

The oil and natural gas industry has, by virtue of production-sharing contracts, produced optimal results for the development of oil and gas production without the need for too great an input of the industry's own capital. What has been capitalized for the development of the industry is only part of the proceeds from the oil and gas production.

The oil and gas industry has generated "spin-off" benefits in the form of more than two hundred supporting and servicing industries, both nationally-owned and joint ventures, and it has commenced laying the foundation for the development of a petrochemical industry.

In many of these enterprises and activities, the state oil-holding Pertamina has acted as sponsor and participant.

Pertamina has however unfortunately overexpanded into sectors which are not particularly closely-related to the needs of the oil and gas industry, with the result that it has assumed financial and managerial burdens which are almost beyond the company's capacity to bear.

The problem does probably not solely stem from an excessive ambition on the part of Pertamina to expand the range and scope of its activities, but may also be due to seemingly blanket-type policy in the oil and gas sector that does not clearly define in detail the role of oil and gas industry within the overall development effort in general, and the functions and role of Pertamina as a "national holding agency" in the context of an oil and gas commodity policy in particular. The problem seems further even more aggravated by the non-existence of other holding agencies capable of handling certain major projects and of supporting Pertamina in the execution of its primary tasks.

Examination of one of Pertamina's "side enterprises", such as the Krakatau Steel Project, for example, reveals that Pertamina's managerial facilities, personnel and credit standing were used precisely because there was no alternative "pool" containing the requisite skills and capital.

The existence of a steel industry would indeed provide strong support for Pertamina and the overall development of the oil and natural gas sector. However seen in a national perspective, the Krakatau Steel project could not be regarded solely as a supplier of steel for Pertamina, but rather must be seen as the embryo of an iron and steel industrial sector that would become an additional important element in industrial development in general.

The project would obviously have a close relationship with subsequent efforts to establish a large-scale primary rolling-mill and would support machine and ship-construction industries, so

that there is clearly a need for a special commodity-policy or sectoral-policy to deal with the iron and steel industry.

A linkage could also perhaps be established in the future with the activities of the state-mining enterprise Aneka Tambang in the exploitation of iron-sands. Iron-sands could be used to produce iron-pellets to serve as the basic material for Krakatau Steel's direct-reduction process, or in the processing of nickel within the steel industry to produce a variety of steel alloys for use in such industries as machinery, nuclear power and defence hardware.

The major problem facing the rapid and satisfactory development of the iron, steel and machinery industrial sector is the absence of a holding-agency to supervise the implementation of special policies for this sector.

As has already been shown in practice, entrusting this task to a government department only gives rise to all sorts of problems due to the limited authority of any one department vis-a-vis others.

Much the same difficulties face the non-ferrous metal mining sector.

Consider the example of aluminium. The implementation of the Asahan Project will open up a wide range of new possibilities and will involve the respective authority of a number of government departments.

A smelting plant with an initial capacity of 225,000 ton per year and capable of expansion up to 360,000 ton per year would provide the base-market for an alumina production enterprise handling at least 450,000 ton and possibly as much as 770,000 ton per year. In view of the size and economic significance of the issues at stake, a decision must be made immediately as to whether the responsibility for providing the alumina for processing at Asahan is to be allocated to an enterprise to be established on Bintan Island itself, or to the alumina production facilities currently planned for construction in West Kalimantan by Alcoa/Alcomin from the United States. The American project will produce alumina in excess of one million tons per year and, although the project is primarily intended to be produced for export, some portion of the alumina produced could be diverted for internal Indonesian purposes.

In choosing among these two possibilities, attention may also be given to the future development of a caustic soda plant, a by-product of which — chlorine — may be utilized in the production of plastic by the petrochemical industry.

Furthermore, the smelting of aluminium requires petroleum-coke, a commodity with good export prospects and one which can be produced from the waste products of some Indonesian oil refineries.

The end-product of the aluminium smelting process is in the form of large aluminium ingots which, in turn, need to be reduced to smaller billets before they can be processed in rolling mills and extrusion mills in Indonesia and neighbouring countries.

This chain of processing activities will exert a significant influence on the future development of the manufacturing industry, and will contain sufficient and variegated socio-economic, growth and added-value implications to require special and integrated policy consideration.

This list of aspects requiring attention has not touched upon the "profit margin" criterion, yet this aspect also demands careful consideration. Profit margins will vary according to the stage of processing and the type of industry, a fact that may be used to advantage in connection with the provision of capital for vital/strategic projects that are low in terms of financial feasibility but which may be rendered more viable by being integrated with other stages in the production process that are financially stronger.

Even in this field, however, there is not a single organization or agency that can function as a sponsor or mediating body to bring about the degree of inter-departmental coordination necessary for the growth and development of this commodity sector.

Similar intermeshing relationships perhaps need to be encouraged in the field of nickel development, in view of the plans and activities of Pacific Nickel (Pulau Gag, Irian Jaya), Sumitomo (Halmahera), Inco (Central Sulawesi) and PT Aneka Tambang (Southeast Sulawesi).

A special aspect requiring attention in relation to nickel exploitation is the fact that, when each of the above-mentioned projects come into full operation, Indonesia will become a significant

supplier on the world market, with a production capability equal to 15% of current world market requirements, apart from being able to satisfy Indonesia's own requirements for nickel in the production of steel alloys by the domestic steel industry.

Given these various aspects of the nickel sector, it would seem obvious that decisions need to be taken soon concerning the role and influence of government in the expansion of this sector. The government's role may vary, according to the prevailing strength and autonomy of the nickel industry, from direct participation to simply providing support for private enterprise which, it is to be hoped, will take care of the bulk of the "link-ups" in the industry.

The significance of the issues involved in the development of an Indonesian nickel industry extends beyond economic and commercial considerations to include strategic and political aspects.

In the forestry and timber industry it would appear to be sufficient that the government's role extend only to exercising control over several specific reserve forest areas — such as the teak forests on Java and perhaps on Muna Island (Southeast Sulawesi), the pine forests of Aceh, and a few industrial-timber stands in East Kalimantan and/or Sulawesi — and to limited involvement in some large-scale enterprises, such as pulp and paper factories and large-scale integrated industrial-timber complexes.

In this sector, as with the others discussed above, a framework for cooperation between a government agency or body and private enterprise (both local and foreign) should not be difficult to establish. Such a framework could function not only as a "price-setter" for the overall growth of the timber industry, but also as an element contributing to the stability of the industry itself and as a back-up organization from which small local industries in the same sector could draw technological, training and marketing support.

Similar concepts could be devised and implemented in the fields of plantation production of industrial materials and food-crop agriculture.

The type of enterprise agencies envisaged could also support the development of smallholders outside of Java, both in their own production efforts and also in relation to obtaining supply con-

tracts for specific materials with large-scale plantations and agricultural enterprises.

An agricultural and plantation support-system such as this would produce a "pull-effect" of great significance for future transmigration from Java to the outer islands.

In the manufacturing sector, particularly in the electronics and textile fields, the primary purpose of government participation will perhaps be to seek to guarantee, in the national interest, a "reserve" of the fruits of the fast-growth potential of certain industries. This "reserve" could subsequently be channelled back into the society, either directly, or indirectly via capital markets, at a time when the society has become economically stronger and more absorptive.

It would seem obvious that government participation can have a variety of purposes, so that it is necessary to clearly identify the more important of them to ensure that participation be truly beneficial for the development of the national effort and that it not slide in the direction of "etatisme" for its own sake.

The problem of those sectors considered in the beginning of this paper relate to basic industry and to primary goals which depend largely upon politico-economic considerations, whereas the considerations involved in those sectors mentioned last are more of a socio-economic nature.

The impression gained is that the national economy can only be brought into reality by means of cooperation between government and the world of national enterprise on the basis of a strategy that is mutually-supportive and complementary from both sides.

It must be emphasized at this point that the role and the participation of Government in the economy should preferably not extend over the whole field of economic activity, but should rather be restricted to a level at which it can exercise sufficient influence over the development of the national economy (controlling-interests) in those sectors and areas where national private enterprise is not, or not yet, in a position of sufficient strength to safeguard its own interests.

It is not even necessary for government to become involved or

to participate in all aspects or sectors of each of those commodities or sectors earmarked for priority attention; it should perhaps be sufficient for government to limit its involvement to those elements or areas considered of vital significance for the success of the strategy pertaining to the commodities or sector concerned.

The next problem to be discussed is that of just what sort of body or organization could be entrusted with the task of implementing the government's development strategy by means of commodity or sectoral policies, and what is to be the role of the government departments in this context.

IMPLEMENTING AGENCIES

Implementing agencies are organizations entrusted with the task of implementing government policies concerning the mobilization and utilization of certain national assets, in this case specific commodities and economic sectors singled out to become the primary supporters for national economic growth.

Depending upon their respective characteristics, such agencies may be called National Trusts or National Holdings. In structure they could take the form of holding companies in which all shares are held by the government. For the purposes of this discussion, such bodies will henceforth be referred to as "Holdings".

Holdings differ in principle from the "General Management Agencies" (*Badan Pimpinan Umum*) that were once established in Indonesia. The BPUs were primarily supervisory bodies, the scope of which was restricted to the area of jurisdiction of specific departments.

As proposed, holdings will be different from BPUs in that their scope of activities may cut across the areas of jurisdiction of a number of departments, depending upon the particular commodity or sector for which holdings are responsible.

Obviously the staff of such holdings need to be carefully selected, with the key executives drawn from government departments and with experts from outside the government being utilized wherever necessary. Needless to say, the staff of holdings would all have to be full-time professionals.

Essentially holdings would act on behalf of the government and safeguard the national interest by means of share-holding participation. If necessary, holdings could seek loan funds for enterprises in which the government decides that a measure of government control is in the national interest.

Holdings would be empowered to appoint selected experts to represent them on the boards of directors of enterprises under holding's control, so that government representatives in such enterprises would not simply consist of individual appointees acting alone, but would receive the full back-up support of their organization and would be empowered to take decisions on the basis of instructions from their respective holdings.

Such an arrangement was not included in the earlier BPU system, which generally took the form of permanent committees of appointed officials.

Although the basic task of the BPU was to supervise on behalf of the state, there was no final goal of public participation inherent in the BPU system.

The holding structure would enable public participation in the future by means of "participation certificates" issuable directly by the holding itself, or by the issuance of shares by enterprises under holding's control. The choice between these two alternative methods will depend upon the particular commodity or economic sector involved.

In concrete terms, the proposal for the establishment of holdings may be summarized as follows: In the case of commodities and/or economic sectors exhibiting sufficient economic, political and social potential that their exploitation and development could represent foundation blocks for enhanced national development, special implementing agencies (holdings) should be established with the task of carrying out national strategy relating to the commodity or sector concerned in accordance with certain long-term policies and in line with implementary policies of the relevant government departments.

REGIONAL ASPECTS

The approach suggested above is basically intended to take advantage of the political and socio-economic aspects of commodities and sectors endowed with particularly impressive characteristics.

As explained above, the concept of government involvement/control in relation to such commodities or sectors does not envisage the extension of such participation/control to the entire range of activities involved in the development of any particular commodity or sector, but rather anticipates that such participation/control be limited to those aspects necessary to guarantee the realization of whatever is required for the healthy growth of the national economy.

It is to be hoped that the activities of the Government in this context be clearly directed towards the growth of national private enterprise, with the government in the role of primary supporter (prime-inover), and not towards the establishment of government control just for its own sake (*etatisme*).

Another aspect requiring attention is that the government also limit its participation as far as possible only to projects or items that, on the one hand, promise to produce maximal generating effects upon their immediate geographical environment, and on the other hand, represent important forces for the growth of certain industrial sectors on a national scale.

Some examples may perhaps serve to further clarify this point.

The Asahan aluminium smelting project, the mining and projected processing of bauxite into alumina on Bintan Island and the similar project planned by Alcoa for West Kalimantan, will each, by virtue of their presence in their respective geographic locations, represent considerable developmental potential with respect to the surrounding areas.

This potential would be further enhanced if these projects were to be linked up with the exploitation of oil in the Riau area, the estates in North-Sumatra, the development of natural gas in Aceh, and perhaps even with the pine timber industry in Aceh.

Given the creation of growth centres, partly developed by the government and partly by foreign private enterprise with gov-

ernment participation, a territory covering parts of the provinces of Aceh, North Sumatra, Riau and West Kalimantan would come to represent a growth area of great developmental significance.

A regional development plan could then be devised for the whole of this growth area that would provide a blueprint and set of guidelines for the overall economic and social development of the area. Such a plan could cover such aspects as harbours and road and network, electricity distribution, education programmes, banking and other financial institutions, regional communications, and investment opportunities for private enterprise. The latter aspect could, if necessary, receive special attention in the form of extra facilities and incentives attuned to the development objectives of the area. Perhaps the provision of incentives for private enterprise could even be related the capacity of each enterprise concerned to mobilize and provide job-opportunities for Javanese workers, thereby assisting the transmigration program.

Returning to the question of holdings, it would appear that the establishment within the proposed growth area of holdings in the field of aluminium, oil and natural gas, and perhaps also in plantations and forestry respectively, could provide the primemovers for the overall development of the region while also laying the foundation for the national economy.

The same concept and pattern could also perhaps be applied to relations among the three provinces of South Sumatra, Lampung and West Java in connection with three growth centres that appear certain to come to fruition in the near future, i.e. the oil and petrochemical industry in the Palembang area, coal production in the area extending from around Muara Enim to Lampung, and the Krakatau Steel complex, including the ancillary and support industries related to that complex, and to the oil industry in the Merak-Cilegon area.

The possibility of supplying Krakatau Steel with iron-pellets derived from iron-sands in the Yogyakarta district, currently under study by Aneka Tambang, could also be brought into this territorial development pattern.

Yet another growth area with considerable potential is the one covering South, Central and Southeast Sulawesi, an area in which rice is the traditional crop but sugar and beef production is now

being initiated in the Southern and Southeastern provinces, nickel mining and processing by Inco and Aneka Tambang is underway in the Central and Southeast provinces respectively, and asphalt and teak industries have started respectively on the Buton and Muna Islands in the Southeast province.

This pattern could perhaps be extended also to include nickel mining on the islands of Gebe and Gag/Waigeo. Nickel would in this case be considered in terms of commodity policy, with the anticipation that which each of these nickel projects coming into operation Indonesia could obtain a respectable voice on the world nickel market. Some portion of the nickel from these projects could be utilized by Krakatau Steel in the production of special steel alloys.

Another area with high potential is East Kalimantan, from Balikpapan up north, with natural gas and timber as the major commodities.

Finally, the island of Java represents a growth area in its own right for manufacturing and small-scale agriculture. Javanese agriculture may perhaps need to be gradually reoriented away from rice and sugar towards horticulture and the production of more highvalue food products, such as vegetables, fruit and high-density cattle raising.

The designation of these areas as special growth areas is not intended to imply that development should take place only in those areas, but rather is based on the fact that precisely because of the special potential of those areas, each of which contains projects capable of functioning as prime movers, the development of those areas is particularly amenable to more integrated and better focussed planning. Indeed, given the right mix of facilities and incentives, the development of these areas could be accelerated to the point where they generate spill-over effects in other areas.

A clear offshoot of the benefits that could flow from the development of such growth areas is a substantial increase in spontaneous transmigration from Java.

It needs to be emphasized that the allocation of priority to the development of these specific areas does not imply that development needs to be stopped in other areas, although perhaps tem-

porarily the development of other areas could be focussed primarily upon the satisfaction of felt socio-political needs.

Within the growth areas, the achievement of maximal development in terms of the national economy can only be guaranteed if the government exerts sufficient controlling influence over the primemover enterprises concerned. It is precisely this task of organizing and maintaining controlling influence that must be given to holdings (implementing agencies or national trusts).

The establishment, under Pelita II, of planning bodies at the provincial level, would appear to indicate that ideas approaching those outlined in this paper have received the attention of economic planners. However, there is no strategy or set of follow-up or implementing guidelines designed to direct the provincial planning bodies towards the achievement of optimal results by means of interregional coordination.

MACRO-ECONOMIC ASPECTS

The holdings concept and structure discussed above point to government involvement, particularly in connection with large projects. This would involve the investment of government capital in projects normally run by private enterprise.

However, as already pointed out, the involvement of the government in such projects would not be with the aim of simply gaining control over any particular sector or of obtaining direct profits, but would rather be intended to guarantee that opportunities for Indonesian private enterprise to participate continue to exist. Private enterprise could subsequently take advantage of these government-guaranteed opportunities by either gradually buying up some or all of the government-held shares, or by establishing new enterprises.

Since the objective of the government exercising control is definitely of political nature—notably in order to facilitate national development—rather than for commercial reasons, the government would be free to focus its attention upon the education and training of leadership and work-force cadres and the development of new businesses by means of what might be called "spin-off operations".

Such is one of the macro-economic aspects of the holdings scheme, in this case, one of socio-economic significance.

Attention also needs to be drawn to the fact that Pelita II has adopted as its target the achievement of about 7% average annual rate of economic growth during the 5-year period, a rate that clearly requires a much higher level of investment than that obtained during the preceding 5-year period.

According to calculations based on certain assumptions, in order to reach this 7% target it will be necessary to realize an approximate average annual level of investment as follows:

- (a) Public Investment — Rp. 993.0 billion
- (b) Foreign Private Investment — Rp. 265.0 billion (approx. US\$ 709 million)
- (c) National Capital Participation — Rp. 30.0 billion
- (d) Domestic Private Investment — Rp. 800.0 billion (including State Enterprises/Public Companies/Regional)

In view of past records in private investments so far, it is an open question whether the amounts listed under categories (b)-(d) above can be achieved unless the government becomes involved and co-invests in those categories.

On the basis of information at hand, there is good reason to believe that the current capacity of Indonesian private enterprise to raise investment capital from local sources is between 125 and 200 billion Rupiah per year.

A large proportion of the amount in category (a) above will represent sunken funds unless it is complemented by new economic activities capable of quickly generating new funds.

Nevertheless, even if large proportions of category (a) does represent sunken funds, there can be no doubt that such expenditure will still have some socio-political value; however, this socio-political value will very soon decline in significance if it is not matched by a sufficient measure of tangible economic progress.

On the other hand, it can be anticipated that the allocation of developmental priority to areas exhibiting special potential (growth areas) will serve to guarantee that the expenditure of such large amounts of development funds will produce both socio-economic and socio-political benefits.

THE ESTABLISHMENT OF IMPLEMENTING AGENCIES (HOLDINGS)

The major problem is to set up holdings along the lines described above in a short period of time.

The special characteristics of the proposed holdings are that the staff structure must encompass a wide range of technological and administrative disciplines and the staff must be capable of working together as a team.

The staff must not only be skilled in all aspects of technology, finance, management and administration, but must also be capable of keeping abreast of all developments and new prospects, whether national or international, within their respective spheres of duty.

The leadership and staff of holdings must always be conscious of the function of the holding as a body obliged to supervise and control the exploitation and utilization of the natural and social wealth of Indonesia and of the role of the holding as a promoter of development.

It would appear that the only organizations with the potential to fulfil the criteria proposed for holdings are among others some existing State Enterprises (PN) and Public Companies (Persero), including PN Pertamina, PT Aneka Tambang, PT Krakatau Steel, PT Inhutani, and BAPINDO.

An advantage of entrusting the task of handling the program of government participation described above to these State Enterprises (PN) and Public Companies (Persero), with their existing organizational structures, would be that, at the very least, a staff-framework is immediately available to carry out the tasks of holdings.

Each of the PN and Persero concerned could then be gradually developed and transformed into holdings by a process of upgrading and improvement. The enterprise units within each of the PN and Persero concerned could subsequently be hived off to become new Persero (Public Companies) under the control of their respective holdings which, in most cases, would be their own former mother-company.

Allowing three to five years for the transformation process, this procedure would appear to offer greater efficiency and speed than would the alternative one of attempting to create holdings from scratch with completely new structures and personnel.

Obtaining and appointing expert personnel would not prove too difficult. The welding of such personnel into highly effective, synchronized working teams, however, would necessarily take more time.

The Bank of Indonesia has recently adopted a system similar to that proposed here in connection with a program of government participation in the manufacturing industry sector. The Bank has appointed BAPINDO as an implementing agency and has made special funds available for this purpose.

In this new role, BAPINDO is essentially functioning as a holding as well as continuing to carry out its primary task as a Financial Institution (Development Bank). To facilitate the handling of this new responsibility, BAPINDO has created a special unit within its organization that is responsible for the holding role. After sufficient upgrading and improvement, this new unit is to be separated from BAPINDO as a autonomous implementing agency.

FINANCING THE HOLDING

As mentioned above, the Bank of Indonesia is financing its experiment with what is essentially a holding in the manufacturing sector by means of special funds.

The quickest way to finance the program of government participation proposed above would be to draw funds from the State-owned monetary reserves, however this method would necessarily be limited by the necessity to maintain certain levels of reserves. Current negotiation concerning government participation in three or four very large proposed projects will, when finalized, entail cash payments by the government of several hundred million US dollars over a period of from 5 to 8 years.

The pressures of this demand for cash could be reduced somewhat by means of such measures as production-sharing contracts or long-term loans.

Production-sharing contracts would obviously be the more attractive of these alternative measures, but would probably be feasible only in relation to commodities with certain specific production or market characteristics.

Apart from measures designed to reduce pressures on cash reserves, it would also be possible to create new funds.

One way of creating new funds would be to issue long term bonds on the capital market in Indonesia or even abroad.

Another possibility would be to release government funds currently tied up in shares in public companies that are functioning well. Such funds could be released through the sale of these shares at home and abroad.

This latter measure would make it possible for the government to directly generate new enterprises with the funds currently tied up in shares.

The sale of such shares would have the further beneficial effect of stimulating the establishment and growth of an Indonesian capital market.

As can be gathered from the above discussion, the Indonesian capital market will unavoidably be limited in its initial stages to transactions by institutional investors, most of which will, in practice, be over-the-counter transactions.

CONCLUSION

This paper has outlined the main features of a long-term strategy for the development of the national economy. The strategy places emphasis upon the role of specific commodities and sectors that possess vital and reliable growth potential.

This strategy is not only designed to advance the specific commodities and sectors singled out for priority treatment, but also with a view to make integrated optimal development-planning feasible for the areas in which these commodities and sectors are located.

At the same time, the implementation of this strategy would enable optimal advantage to be derived from the funds available to

the state, whether they be in the form of reserves or of shares in companies that have already developed satisfactorily.

By releasing the public funds currently tied up in shares in successful persero/public companies, the state would be taking a first step towards the establishment of an Indonesia capital market capable of mobilizing potential investment funds from the society at large.

Without neglecting the development of other areas, the allocation of developmental priority to the development of selected growth areas would serve to shift emphasis towards political-economic aspects without detracting from the aspect of social preconditions. At least temporarily, the emphasis within the development of regions outside of the growth areas would continue to be placed upon socio-political aspects.

It is anticipated that the more diversified developmental effort inherent in this strategy would enable more optimal mobilization of funds and forces, both national and foreign, and would assure a sounder and more secure process of accelerated development.

In the implementation of this program for government participation, it is suggested that Implementing Agencies (holdings), capable of operating freely along business lines without being bound by sectoral administrative limitations, is essential.

Although free to operate in accordance with business procedures and norms, holdings will be obliged to abide by complementary policies as laid down by government departments.

In the event that this proposal, either in its original form or with modifications, is acceptable to the relevant authorities, the first task that must be undertaken in order to commence its implementation is to draw up detailed blueprints for the establishment of each holding. Such plans would need to cover the bases and scope of responsibility, together with a definition of the goals to be achieved, of each holding.

As a consequence of these preparatory steps, it may prove necessary to reconsider certain current policies, including those relating to foreign and domestic investment, direct and indirect taxation, tariffs, trade and industry.

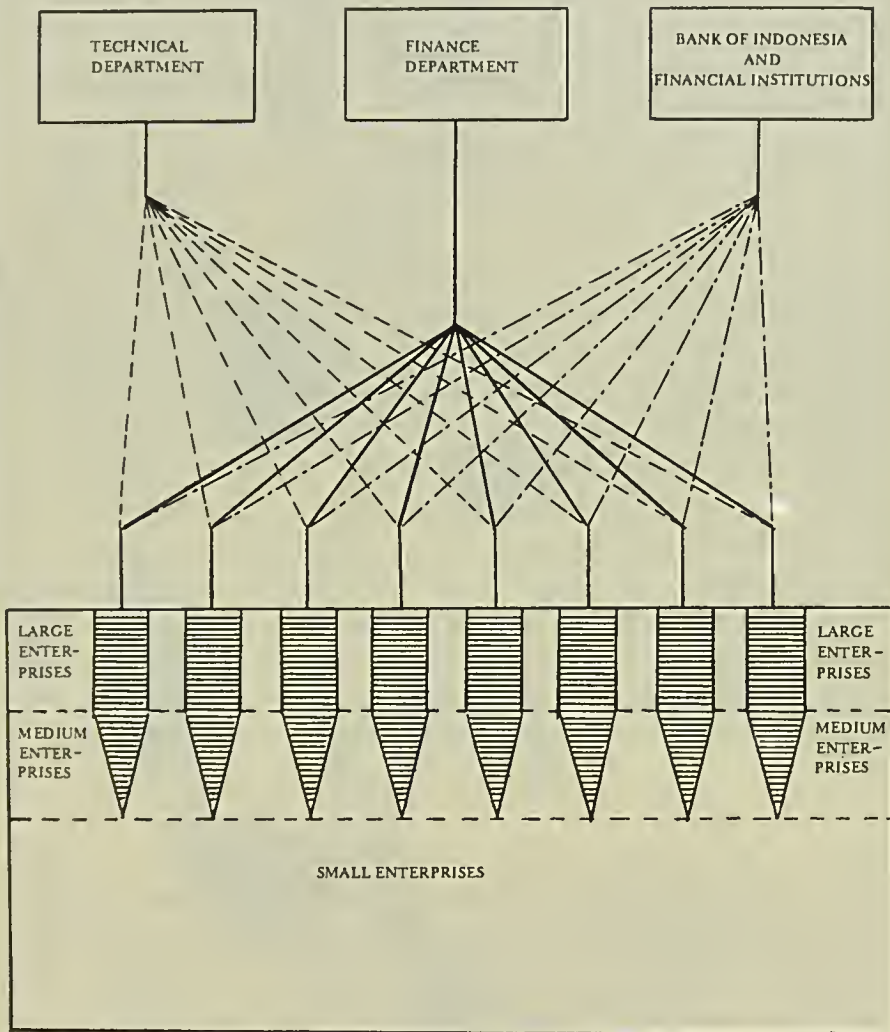
On the other hand, the new structure and ground rules that

would result from the implementation of the proposed strategy would facilitate more efficient and better coordinated planning at the provincial level by planning bodies and agencies responsible for private investment.

Provincial agencies such as these would, furthermore, be able to focus more attention upon encouraging the growth of small and middle-size private enterprise, particularly among the economically weak sector of the society, which is heavily dependent upon and influenced by the socio-economic conditions prevailing in its immediate environment.

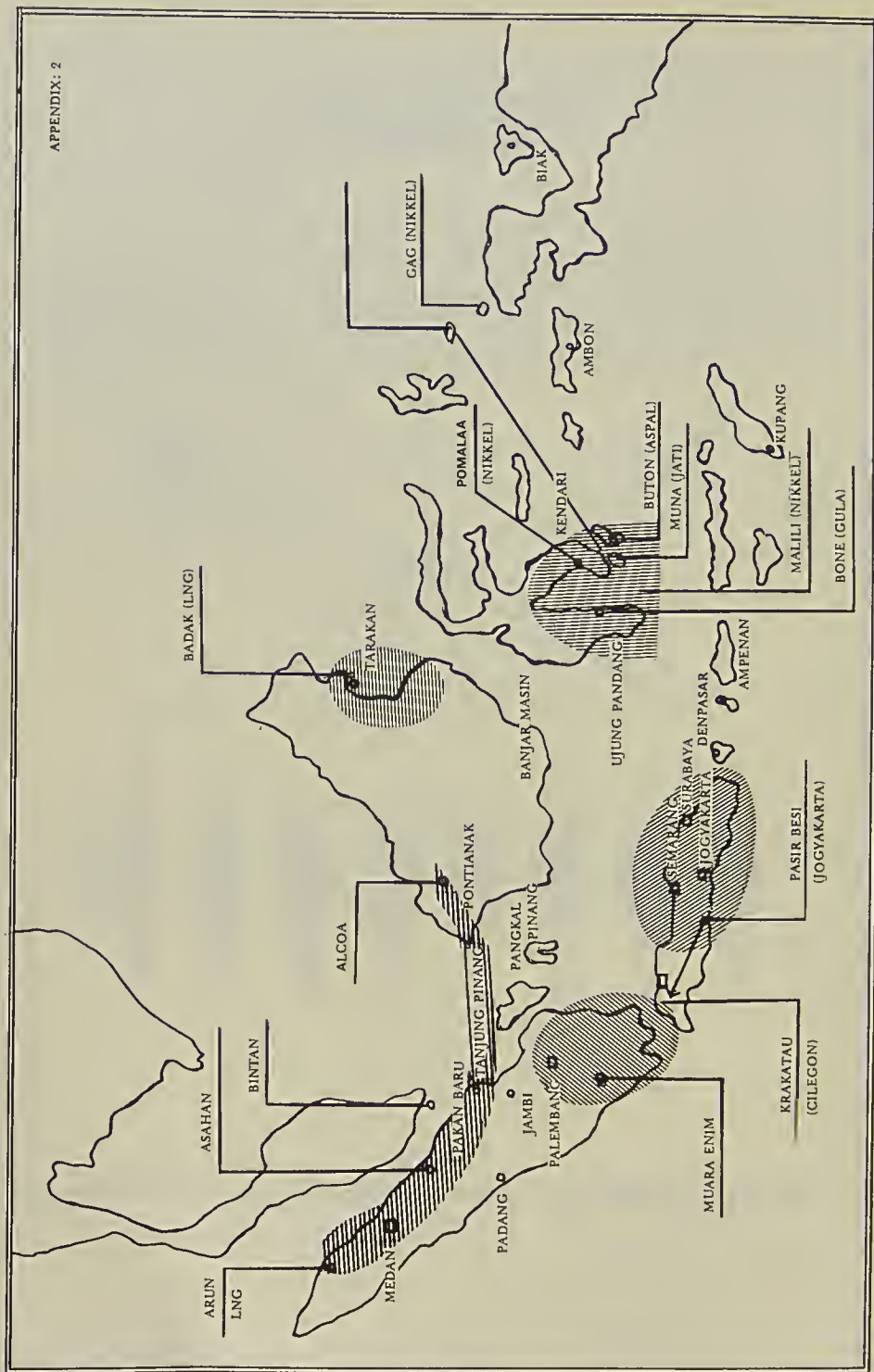
The diagram and the map attached to this paper are intended to supplement the written argument. The diagram illustrates schematically the method of approach advocated in the paper, while the map shows the location of potential growth areas.

SCHEMATIC PRESENTATION OF
PROPOSED SYSTEM FOR GOVERNMENT
PARTICIPATION IN INVESTMENT BY
HOLDING CORPORATIONS



8 (EIGHT) HOLDING CORPORATIONS

- SHAREHOLDER
- IMPLEMENTARY POLICIES
- .-.-.- CREDIT FUNDS



MINERALS, FOOD AND SHIPPING: FACTORS IN STRATEGIC CONSIDERATIONS

O. Abdul RACHMAN

In today's rapidly changing world, the spectacular expansion of world trade — particularly in foodstuffs and minerals, including oil — that has taken place since World War II assumes considerable strategic significance. Gone are the days when international trade conformed more or less to the laws of supply and demand. Under contemporary conditions trade is inextricably entangled with strategic considerations, a fact clearly demonstrated by the unilateral decision of the Arab-OPEC countries to raise the price of oil, thereby causing many leaders in Western Europe to accommodate to Arab strategies in respect of Israel. Another result of the oil crisis was the recognition of the PLO as the sole representative of the Palestinian people by both the Arab Summit Meeting and the United Nations in 1974.

A whole range of minerals, apart from oil, have also assumed increased strategic significance in response to the growing needs of industry, especially engineering industries, in the advanced countries. Another item of major significance — particularly for the hungry nations of Asia and Africa — is foodstuffs.

The flow of both these categories of commodity — minerals, including oil, and food — through the arteries of the world trade system depends almost entirely upon sea-borne transportation, so that the strategic significance of the seas, with all the political, economic and ideological complexities that it entails, is correspondingly enhanced.

MINERALS, METALS AND FUEL

According to U.S. sources, world trade in metals and fuels consists of 51% metals and 44.5% mineral fuels. The mines and wells that produce these solid and liquid minerals are not evenly distributed, but are rather scattered among countries. Developing countries, many of them ex-colonies, contain a high proportion of such sources of mineral wealth, but Canada, Australia and South Africa, in the non-communist world, and the USSR and the PRC among the communist countries, are all principal producers of minerals and fuels.

Energy — for the time being mostly fuel-derived — is needed to refine metallic ores into forms suitable for industrial purposes. In the United States, according to James Lee, about 75% of energy requirements are obtained from oil and gas. The development of nuclear energy sources for industrial use is still in the early stages, as also is the production of gas from coal. According to UN statistics, the USA consumed annually, during the period 1961-1970, an average of 933.7 million tons of coal equivalent, of which 649.5 million were domestically produced and the remainder imported. In comparison with Western Europe and Japan, the USA is in a favourable position in this respect.

West Germany, the United Kingdom and France, collectively, consumed 408.7 million metric tons of coal equivalent per annum during the period under considerations, of which 388.9 million tons were imported. With annual average consumption running at 227.3 million tons coal equivalent and imports comprising 226.3 of them, Japan is in an extremely dependent position.

Both the USSR and the PRC are net exporters of these strategic commodities, and the discovery of what promises to be huge oil deposits off the Chinese coast has introduced a new and highly problematic element into future strategic deliberations.

The oil import requirements of Western Europe and Japan are mostly met from Arab sources. The Arab countries collectively export each year the staggering sum of 670.8 million metric tons of oil. If we add to this the 165.4 million exported annually by Iran, we obtain the grand total of 835.2 million metric tons, the bulk of it destined to be consumed by the expanding industries of Japan and Western Europe. The quadrupling of their oil prices by the

Arab oil-exporting countries painfully emphasized the heavy degree of Japanese and Western European dependence on oil imports and, in so doing, prompted some significant shifts in strategic postures.

The following discussion of aspects of the international trade in metals focusses particular attention on specific metals necessary for the industrial production or armaments. The monopoly once enjoyed by the United States on the supply of weaponry to NATO countries and other friendly states has been successfully challenged on a variety of occasions in recent years — French sales to Libya and other belligerent Arab states provide one major example of such a challenge, but American arms salesmen are increasingly concerned at the inroads being made by European weapons manufacturers into such traditionally American dominated markets as those of Latin America. All arms-producing countries are currently striving to expand their export markets in the interests of their respective national economies.

The metals most needed by armaments industries are, besides oil for energy purposes, iron, copper, lead, zinc and bauxite. To this list may be added other important metals, such as manganese, tin, tungsten and uranium (for use in production of nuclear arms). As with oil, each of these metals are found only in certain areas in economically significant quantities. Thus, for example, in Latin America, Surinam and Guiana export bauxite, Chile and Peru export copper, Peru also exports zinc, Bolivia tin, Jamaica bauxite, Brazil manganese. In Africa, copper is exported by Zambia and Zaire, zinc is exported by Zambia, Gabon produces manganese, while iron ore is exported from Liberia, Sierra Leone and Mauretania. In South and Southeast Asia, iron ore and manganese are exported by India, tin by Indonesia and Malaysia, and copper by the Philippines and Papua New Guinea. The countries listed above are, like most of the oil producing countries, developing countries. The successes achieved by the oil countries, notably through OPEC, have stimulated the metal producing countries to consider similar united action, but so far their plans have not lead to any concrete results. On the contrary, the price of copper on the world market has deteriorated, forcing the governments of, for example, Zambia and Zaire, to tighten controls over their economies.

One reason for the relative weakness in the international marketplace of the metal-producing under-developed countries in comparison with, for example, the OPEC countries, is that metals can be stockpiled more easily, cheaply and for longer periods than can oil or gas, with the result that importing countries, because they can readily maintain buffer stocks, are not so much at the mercy of the exporting countries as they are in the case of oil. Another important reason is that these metals are also produced and exported by such countries as Canada, Australia and South Africa, all of which are advanced countries allied with the United States. Canada exports huge quantities of iron ore, nickel, copper, lead, zinc and aluminium, while Australia exports iron ore, manganese, lead, zinc and aluminium, South Africa mines iron ore, copper, manganese, chrome ore, tin and asbestos.

Among the members of the communist bloc, the Soviet Union exports iron ore, manganese, lead, zinc and aluminium, while China tungsten, tin and antimony. Yugoslavia, Rumania and Poland each exports at least one or two of these strategic metals.

On the import side, the dependence of industrial countries on imports of these metals is clearly demonstrated by the fact that the United States has to import all metals except copper, West Germany and the United Kingdom import all these metals, France imports them all except iron ore, while Japan is totally dependent on imports of each of them. The countries of Eastern Europe also import some of these metals, but not in the quantities needed by the West and Japan. China imports copper.

This brief outline of the fuels and metals produced by particular countries and needed by other countries underlines the interdependency of nations in today's world.

FOOD FOR THE HUNGRY

There has always been trade in foodstuffs from one country to another, but never before has trade in food reached the tremendous scale it has attained now. The staggering population explosion in Africa and more so in Asia has stressed the need for more food in the respective countries of those areas. Weather conditions like the drought in the Sahel and the floods in Bangladesh have

brought millions of people to starvation. The war in Indo-China, once the rice granary of Asia, has transformed the people in Vietnam, Laos and Cambodia into importers of rice. Even Thailand and Indonesia, once major exporters of rice, because of the rapid growth in population, have to watch their increasing need for food with caution.

The global food situation has grown so desperate that in 1974 in Rome and in Bucharest, the UN convened, respectively, the UN Conference on Food and the UN Conference on World Population.

Both conferences failed to find a solution, not because of lack of frightening statistics paintakingly drawn up by UN experts, but because of the lack of understanding prevailing among the member nations each with its own motivation.

Meanwhile, if the present trends continue, to the point that the developing nations cannot produce enough food and have to turn to imported food, then the hungry millions will have to depend on such exporting countries as the United States, Canada, Australia, Argentina and South Africa.

According to Dan Morgan, writing in the *Washington Post* and re-issued in the *Guardian Weekly* of January 24, February 1 and 8, the "Merchants of Grain", who buy and sell food from one part of the globe to another, are giant corporations, just as big as the "Seven Sisters" in the oil business. These corporations are multi-nationals operating on a profit-making basis. They are also monopolistically inclined, just like their counterparts in oil.

Food production in these advanced countries will undoubtedly become more costly, thereby causing the price to rise. Not only developing countries are importing food but even the Soviet Union has signed a five year contract to purchase grain from the United States; China buys huge quantities from Canada and Australia, and Japan, Italy, West Germany, Netherlands and Belgium each import grains and maize.

The United States is the major exporter, with exports accounting for 60% of her total grain and rice output, nearly half of soy-bean production and 20% of maize. This favourable export position has caused some people in the United States to think in terms of using food as a leverage in diplomacy. Before the grain deal with

the Soviets was aproved, prominent members of Congress successfully tied the grain deal to the problem of Russian Jews who wanted to migrate to Israel. At the end of 1974, Secretary Butz confirmed that he saw food as a weapon, comparable to oil, to be used in international diplomacy.

SHIPPING THE RAW MATERIALS

Because of their weight and bulk, both food and minerals are transported by ship. The increase in volume of shipping, both in the number of ships and tonnage, flying many flags, indicates the rate of expansion of world trade.

Given the constantly increasing demand for food, on the one hand, and for fuel and minerals on the other, shipping must also expand.

An increase in shipping means an increase in ship movements through the major sea lanes of the world and through the strategic straits and channels, posing problems of security both to the maritime nations and to the littoral states, depending on the perceptions one has of security. The scenario of ships plying the waterways in the interests of the Superpowers, the medium powers, and the developing nations shows a common need for unhindered passage on the seas.

At the end of the Middle Ages, in 1494, Pope Alexander VI ordained, by the Treaties of Tordesillas and Saragossa, that the world be divided between Portugal and Spain, each holding full sovereignty and power in their respective part. In their search for spices, both the "superpowers" of that age successfully dominated the seas, giving battle to and defeating all ships opposing them. The hegemony by Portugal and Spain was challenged by the Dutch, with a paper written by Grotius in 1609 and entitled *Mare Liberum*, which stated that the seas should be free for all shipping. The Dutch did not only formulate the Doctrine of the Free Seas in writing, but they successfully waged sea battles against the Portuguese and subsequently established their colonies. The Dutch were in turn challenged by the British, who successfully ruled the waves till World War II. Friendly nations, like the Dutch, the

French and the Belgians, were allowed to frequent the sea lanes, but it was Britain who maintained security.

After World War II, Britain was replaced by the United States as the principal maritime nation in the world, but the situation had changed considerably. First the Soviet Union entered the maritime world, not only with ships of war but also with a modern merchant fleet, as did China. Further there were the many newly independent nations, former colonies, who took part in international trade either with their own ships or with ships flying flags of convenience. It was no longer possible for any one nation to enforce security as once Britain did. Ways had to be found to formulate Laws of the Sea, adjusted to modern times and accepted by all nations in the world. *First* there was the problem of territorial waters, once limited to three miles from the low water line at the coast (the range of shore batteries at that time). At present nearly all nations have accepted the 12 mile territorial limit. This presented problems in specific cases such as the Malacca Straits, where both Malaysia and Indonesia, by claiming a 12 mile territorial zone, have specified the Malacca Straits as territorial waters of Indonesia and Malaysia, (under the 3 mile zone system, the Malacca Straits were an international water way). *Second*, there is the problem of the 2 mile economic zone, reserving the right of the sovereign nation over fishing within its boundaries. This too has caused some unforeseen troubles, such as the dispute between England and Iceland. In that instance, British trawlers, fishing within the 200 mile Icelandic waters, were forced to leave by Icelandic gunboats. Britain sent some destroyers to protect her trawlers. Tension rose between the two nations, both members of NATO, thereby further disrupting the already weakened unity of NATO. *Third*, there is the problem of seabed exploration. Modern technology has enabled the discovery of manganese nodules in some places on the ocean floor. According to *Newsweek* on December 1, an International Consortium was formed by Sumitomo of Japan, International Nickel of Canada and Sedco from the USA, to explore and to mine manganese nodules at specific places on the Pacific Ocean seabed. Seabed explorations to mine manganese nodules are still in their initial stages, but off-shore operations in several parts of the world, producing tin, oil, iron ore and sulphur are a reality, with all possibilities for expansion. Complicating these matters are the strategic considerations of the

two Superpowers, both more or less evenly matched in terms of nuclear warheads, missiles, navies, conventional weapons and, perhaps most dangerous of all, extending protection to selected countries and thereby provoking reactions from the neighbouring states, with their fleets sailing at will.

DETENTE AND NEW REALITIES

The rigidity and confrontation of the bi-polar world is gradually shifting to multi-polarity. Approaches between the Superpowers at the beginning of this decade signaled the end of the Cold War and the beginning of detente. Some circles in the West perceived detente as a new era, in which both Superpowers could "relax and sit back", while the rest of the world could live peacefully, without the fear and tension characteristic of the Cold War days.

Efforts were made to mould new structures to replace the defunct mechanisms of military alliances. The United States sought to form a strategic triangle, in which the Soviet Union, China and the United States would balance each other. In the economic field, a triangle consisting of the United States, West Europe and Japan should, it was hoped, ensure stability.

Meanwhile, successive events in the strategic field, such as the October war in the Middle East, the end of the Indo-China war, the Indo-Pakistan war and more recently, the West Sahara problem and the conflict in Angola placed heavy strains on the triangle, tipping the balance between the United States and the Soviet Union and causing many observers in the West to wonder whether detente was not merely a one-way operation in favour of the Soviets.

The Communist side did not comment on these triangle theories; they did not waste their time in the illusions in the West. Repeated public assertions that cooperation with the West does not mean the end of the Soviet attempt to change the balance of social-political forces were brought into focus by Soviet aid to the Communist Party in Portugal, through the dispatch of modern arms to Angola and of Cuban troops to face South Africa. Moreover, the Soviet Union has expanded her weaponry and is now surpassing the United States in defence expenditure, in missiles, in total mega-

tonnage and even in the number of tanks in the Warsaw pact armies facing NATO. The United States is still ahead in warheads but a sharp rise in Soviet production in this field is to be expected.

On the high seas too, Soviet ships are ubiquitous, not only warships, but also cargoships and trawlers packed with electronic gear, and their scientific research ships operate as far as the waters of the Antarctic.

In times of crisis, like during the Indo-Pakistan war in 1971, the Middle East war in 1973, Soviet flotillas appeared in the waters of the Indonesian Ocean, together with American ships of war. During the last days of the Indo-China war, in April 1974, the Soviet fleet from its home base in Vladivostok held exercises on the sea lanes to Japan, demonstrating that the Soviet fleet was capable of acting in these waters if the need arose, effectively blocking Japan's much needed imports.

On the other hand, the United States has also increased her defence-budget, signaling not so much an intent to preparedness to send troops abroad again — an act which Congress certainly shrinks from — but most probably to increase arms production in the engineering industry.

The hard facts of life indicate that detente is only valid between the United States and the Soviet Union because of the imbalance of nuclear terror in favour of the Soviets. The attempts to balance the armed strength of the Western alliance and the Warsaw pact are still being continued, although Gromyko boastfully maintained that: "The actions of the Warsaw pact are having a major influence in shaping the situation not only in Europe but far beyond".

Trade between the EEC and COMECON is continuing to contribute to the perception that detente means peace.

Events in areas outside Europe, however, new realities like Indo-China, Bangladesh and Angola, raise many serious questions about feasibility of the strategic triangle. Angola is now recognized by the EEC, despite United States and Chinese disapproval. During the oil crisis, West European and Japanese government leaders hastened to accomodate themselves to the new realities.

Have these new strategic realities made the triangle theories in-operational? Do they signal the end of detente?

CONCLUSION

This analysis has stressed the urgency of obtaining minerals for the engineering industries of the Western World and, on the other hand, the growing need for food supplies.

As for the latter commodity, both industrial countries, like the USSR and the states of West Europe, and even more so developing countries such as India, Bangladesh, the Arab nations and China, all need to import food. The trend is towards a situation in which only the United States, Canada and South Africa are able to export food, albeit with higher prices.

Minerals, be they liquid or metallic ores, are divided, in terms of their natural occurrence, between developing nations and medium industrial nations, like Canada, South Africa and Australia. The Communist nations are nearly self-sufficient, except China, which imports copper.

The state of the world, although characterised as multi-polar, remains fundamentally influenced by the antagonism between the United States and the Soviet Union. While detente exists between the two Superpowers and, in the European theater, efforts continue to reach a mutual balanced force reduction between NATO and Warsaw pact, outside Europe the balance has not been found.

Just like in earlier periods of history, when the fight for raw materials was waged between the Superpowers of that time, conflicts in fuel and mineral producing countries, such as Nigeria, Congo, the Middle East and now Angola, are drawn into the complexities of Superpower rivalry within the multi-power scenario.

Even transporting these commodities over the waters of the oceans, through straits and canals, emphasises the problems of security on the seas, giving the Soviet Union the pretext that the presence of Soviet men-of-war in the Indonesian Ocean is required to protect Soviet shipping. The same reasoning is used by South Africa to argue that the sea lanes around the Cape of Good Hope have to be protected against communist infiltration.

For Indonesia, an importer of commodities such as food and items needed for development, and an exporter of oil, tin, timber and rubber, the use of the seas is vitally important.

The Archipelago Doctrine, which encompasses all islands and all seas within the boundaries marked by a line drawn from the outer point of a 12 mile zone, includes the strategic waterways of the Malacca Straits, Makassar Straits, Lombok Straits and Omba-Wetar Straits near Timor. These waterways are not only used by warships of many nations, but also by merchant ships bringing their precious cargo. This doctrine is of particular significance in view of the relative shallowness of the Java sea (which already produces oil and tin) which makes it potentially important for future seabed exploration.

Within the context of the growing need for minerals and food, this analysis has shown that the interdependency of nations is clouded by the terrifying competition between the great powers, while developing nations, although independent, could utilize constructively many of the resources and wealth currently spent on weaponry.

SUPERVISION OF DEVELOPMENT

Soedjono HOEMARDANI

Supervision constitutes an integral part of any développement endeavour, especially in matters which are both complex and comprehensive. It is rather strange, but somehow the relationship between the two subjects, i.e. supervision and development is not fully realized. Quite commonly it is understood in a negative sense, namely as the stagnation or the slowingdown of development and its potential role in increasing effectiveness and accelerating development is frequently overlooked.

This article is an attempt to discuss the role of development supervision. It is not presented descriptively, by retelling events as presented by newspapers. The discussion is based on analytical thinking. The effort to reflect on reality is as important as applying the thoughts reality. The world of concepts is equally as important as that of reality. It is indeed true that at times pragmatic measures should be taken, but it seems undeniable that pragmatic action, if it is based on the right views and ideals in facing problems, will have very different forms and results.

The discussion is divided into three main parts. Firstly, a discussion of development itself. Secondly, a discussion of various problems automatically created by the development. Based on the contents of the second part, the third part will discuss supervisory activities as part of the process of development. In this article, supervision is discussed as an action, and not as an institution or a person engaged in that supervision.

I. DEVELOPMENT

The word "development" indicates a process of growth of some "social indicators" through structural economic and non-economic change.

It seems obvious that this notion comprises three components namely:

- (i) a process
- (ii) social indicators
- (iii) structural change

It is thus understood in connection with the first component that development is a process of growth and not a static condition. Therefore, this development should be perceived progressive course, a series of acts which, while aimed at certain objectives, has no predetermined end point. Though it is certainly possible to view and evaluate that process at a single point in time, it would be inaccurate to judge the whole process based on that momentary view. Remembering that development requires time periods which can only be measured in generations, it is reasonable to talk about short, medium and long ranges or stages of one, five and twenty-five years.

This is especially important if development is to be planned and carried out consciously and systematically and not left to the influence of factors.

The second development component namely social indicators, comprises aspects of all those fields which play a decisive role in the life of a nation and its people, that is, the economic, social, cultural and politic fields which contribute to the existence and resilience of the nation as a whole. So it seems obvious that by stressing only one field, for example, the economic field one cannot say that this is "development". That is why it should comprise both, (a) social development and (b) developments of social means. This means that the whole-some development of the Indonesian man, with qualities which are in accordance with human dignity, development of various social means, not only economic but also cultural in the broadest possible sense, is needed.

This does not mean that each indicator needs to grow with the same rhythm. On account of limitations of development resources, priority can always be given to one of the indicators with regard to its growth. Nevertheless, proper attention should also be given to the growth of other indicators, although with a relatively slower rhythm. It is characteristic of planned and systematic development to use a priority system, without disregarding the

equilibrium, in order to achieve well-balanced and continued growth in the future. Each field indicator can in turn be elaborated. For example the economic field, may be divided into the following sectors: agriculture, industry, trade, services, etc. If the priority system can be applied on the level of field, then it should be applicable at the sector-level. For example as regards the indicator of economy, priority given to agriculture is higher than that to industry. Thus, if the indicator of economy has a priority over that of culture, it does not mean that the whole economic sector have a priority over the whole cultural sector. It can happen that in the economic field the highest priority given to the sector of agriculture is equal to that of the sector of education in the cultural field. On the other hand, for the sake of the priority system, each sector of a particular field should be open to further elaboration. For instance, the sector of agriculture should be open to further elaboration of agriculture of food, of trade materials, of salt-water fishery, fresh-water fishery, of husbandry, of livestock, etc. So if for example, as earlier mentioned, priority is given to the economic field, it is in fact given to one sector of that field, namely that of agriculture, not to the whole sector but only to a sub-sector, i.e. that of the staple food. Therefore, one of the main consideration in giving priority is usually the significance of the given priority to the growth of other indicators or for the sake of stability and smoothness in the growth of other indicators.

The third development component, i.e. structural change, essentially implies the creation of new structures. In this case what is intended are new economic and non-economic structures. This means that an increase in national income without a concurrent structural change cannot be regarded as development. Development must be envisaged as an attempt to change the dualism in the structure of diverse social fields. Particular emphasis is placed on the field of economy and the dichotomy of the system of world business, which has thus far not only caused an economic setback, but also an immoderate reliance of the economic life of one nation upon another. This change is also of considerable importance because a modern state should have the capacity to adjust the structure of various fields of social life to its continuous activity and responsibility in the social, political and economic fields.

The idea of development as described above, can be said to be more or less universal in its applicability. Particularly with regard

to our nation it seems necessary to emphasize the democratic system in the pursuit of development, because only in this system is human dignity valued and not treated as a robot which is moved by a totalitarian mechanism. Therefore, the idea of development needs to be further elaborated so that: development becomes a growth process of various indicators of social field through a change of economic and non-economic structure that is fully based on the principles of Pancasila (five principles) democracy.

II. PROBLEMS CREATED BY DEVELOPMENT

Aside from positive and beneficial results, development will also create problems which may be thought of as the price to be paid for the enjoyment of its fruit. As is the case with all price considerations, while payment is unavoidable, the amount paid should be kept to a minimum. The best way to limit cost is by trying to understand its source better. By and large, these development problems can be classified into two categories: (A) those environment and, (B) disturbances.

A. Problems of Environment

Those problems are closely connected to the negative impact of industrial civilization which is inherent in the growth process:

a. Depletion of Natural Resources

Not all natural wealth and resources can be replaced or renewed after being consumed. Some mineral resources are estimated as being on the verge of depletion. Land, forestry resources and vegetation are decreasing but can be replanted. But this does not mean that they can be excessively exploited. In the long run this will not only spoil the particular resources but will totally destroy other related resources as well. For example, intemperate felling of trees will in the long run turn forests into bare lands which, in turn, will cause erosion of land and disturb the continuing rotation of the water supply cycle.

b. Pollution

Pollution can take the form of biological or chemical pollution. Biological pollution is connected with disease and its source

or spread from human beings, animals or plants. Chemical pollution is caused by motor fuels, residues of industries, the use of poisonous chemicals etc.

B. Problems of Disturbances

The problem here is closely connected with effects inherent in the endeavour and process of development. Those effects are unavoidable and increasingly prevalent as the development process gains momentum. The resulting disturbances are both physical and social.

- a. Physical disturbances constitute noise and air or water pollution.
- b. Social disturbances constitute (i) congestion, (ii) social transformation, (iii) inequalities.

Social disturbances which accompany the development process have a much greater impact on the peaceful continuation of the political life of the society than physical disturbances or pollution.

Symptoms of congestion obviously appears due to the inelasticity of space. Especially in big cities where the process of development is progressing rapidly, the phenomenon of congestion is becoming more and more prevalent with resulting pressure on human life. Cities have become overcrowded because of increasing demands for space generated by development. Streets have become too congested and to limit its effects some residences are demolished and streets are rerouted. All of this creates discontentment. People are grumbling because their houses have to be torn down, or they have to waste their time taking a longer route. This congestion not only destroys individual balance, but also changes social life. The city as a dwelling place becomes increasingly smaller and more confusing; public services decline — both in quantity and in quality —; the evolution of institutions development of physical-means and mental-structure decline and the society is forced into a situation of immobility. This immobility will at any moment, especially in big cities, change into a revolutionary situation. The increasing political temperature opens the way to someone who is ready to offer new hopes motivated by a certain ideology, whatever the name, which is promised to be better than the current situation. This type of con-

gestion appears not only in big cities but also in some agricultural areas although in somewhat different form.

In agricultural areas, agrarian affairs still retain a potential for political unrest. This problem is closely related to land use patterns — especially in Java —, either for production purposes (for the location of a factory for example), or for the purpose of investment and speculation by “the haves” of the big cities. This problem exists not only due to the inelasticity of land supply as a factor of production but it is also due to the relationship between the farmer and his land. It is not only an economic-based relationship, but also contains a magic-religious element. Uncertainty and mismanagement of land on the part of farmers can lead to long and serious political instability.

Social transformation is not only a product of the development process, but may more appropriately, if understood as change leading to innovation, be considered as synonymous with development. These changes are more a substitution than a reduction, a transformation than an accumulation. Activities emerge, increase, reach a climax, decline and disappear in the rhythm of creative destruction created by the development process. People who have to leave their old jobs and homes to which they are accustomed change their habits and way of life. They adjust themselves to the requirements of change, and feel these changes to be a bitter experience. If, however, they want to maintain their old jobs, homes and habits while their environment keeps changing, in the long run those people will become strangers in the midst of the stream of development. On the other hand, mobilisation of resources demanded by development creates both vertical and horizontal mobility. This social mobilization may lead to political instability if it is hampered or slowed down.

The development process which involves thousands of projects and risks millions of Rupiahs also provides opportunities. Multiplication of these opportunities will depend on the response to available opportunities. The smartest, the farsighted and the most daring in applying new productive inventions and combinations will be more advanced in deriving benefit from the development process. Those who are slow thinkers, less intelligent, hesitating and incompetent, will be more and more left behind. As a consequence there will be inequalities especially in the field of income. Notwithstanding the fact that inequalities are to some extent

related to natural-objective factors and, thus, unintentionally opposed to the principle of social justice. There is a danger that rumour mongers may consciously try misuse this definition of the situation without determining to what extent the resulting level of inequality can be said to be against the principle of justice. Solving that problem is not easy because it is not only a matter of statistical measurement, but, on the contrary, also contains philosophical, social and even political and ideological considerations.

III. SUPERVISION

Any problem which is inadvertently created by the development process, although unavoidable, can still be moderated and humanized. One of the main efforts aimed at moderating the harmful side effects of the development process is the supervision or oversight of that process by the government. Adding supervision to the existing tasks of the government is the same as including preventive measures in dealing with health problems.

Under the heading of supervision may be included activities in the fields of politics, culture, economy, social, the use of grants, and the attitudes of officials.

A. Political Supervision

It is a fact that the concept of political freedom has been often misused. This is made more feasible by virtue of differences of education and intelligence among various groups levels of society. Uneducated members of the society are more prone to be influenced by high sounding slogans which are in fact political snares. It is done in such a way that political freedom originating from the principle of democracy is cunningly used to destroy democracy itself, through political disorder motivated by doctrinaire teachings. On the other hand the process of development needs peaceful political life in order to direct effectively all resources and energy of the society towards development efforts. Thus supervision in the context of development is not intended to strangle individual initiatives or political freedom, but to prevent political disturbances and irregularities under the pretext of the exercise of political freedom demanded by the principle of democracy.

B. Supervision of Culture

Seen from the viewpoint of individual members of the society, culture may signify development of mental capabilities, including artistic elements, oral and written literature and science which aid development. When viewed from the perspective of society as a whole, culture is a spiritual and intellectual resource, which both grows out of the development of a and contributes the development of that society. Regardless of the form in which it is found culture implies values which have evolved over generations and which provide us with our own unique identity, i.e. a national identity. That identity distinguishes us from other societies and constitutes an integral part of the strength of our national resilience.

Hence it goes without saying that an active and constructive supervision of culture is needed. Active in the sense of safeguarding the culture from extinction and being blurred by the intrusion of foreign values, while not precluding enrichment of the culture through contact with compatible elements of foreign culture.

This active and constructive supervision is mainly directed at the youth. Because this level of the society is vulnerable to various myths and foreign values and teachings and because the creation and development of those myths and alien values will take considerable time. That is why, seen from the viewpoint of the adversary, youth are in the forefront of those to be influenced, while we regard them as our first line of defense. It has to be kept in mind that this line is very important on account of its decisiveness. The forefront may not lose in its battle, for if the front line should fall into the hands of the adversary, the others would not only lose the battle, but very possibly would lose the war. It is in the hands of the youth that the future fate of the nation rests.

The above discussion is not meant to suggest that culture would be safeguarded by isolating the youth from international communication such as is done by the communist countries, particularly the USSR and PRC. On the contrary, an active and constructive supervision of culture provides the greatest opportunity for youth to know foreign values. But they should also know their own culture better in order that they can also live happily by em-

bodying their national values and taking pride in their own culture.

C. Supervision in Economic Affairs

The need for state involvement in the economy is the result of the global responsibility of the state vis-à-vis her economic life. This responsibility is, in turn, closely related to technical and industrial development and progress in the fields of finance and economics under a democratic system. Economic progress creates friction, conflict and differences among increasingly entrenched interests. Progress in a democracy gives the right to every citizen to ask the state to act as a referee in case of differences and as a judge in deciding priorities, especially in cases of common interests. As a referee, the government is compelled to become a protector, an organizer and, finally, a producer in certain sectors of production. Whether it concerns a certain economic sector endangered by foreign competitors or unequal competition among domestic ones, a production unit faced with closure due to lack of funds or market or because it cannot keep up with the technological progress, the inability of development in the agricultural sector to keep up with industrial development, or the failure of the industrial sector to meet current commercial demands, all of these have resulted in appeals to the government for decisive answers. Thus the government is asked to intercede and to become a supervisor. Government intervention, if it is to be effective tends to create other interventions, which are related to their respective fields in such a way that each will increase precision and overall development capability.

D. Social Supervision

Government involvement in the social field is required by the existence of unequal capacity and potential among members of the society. Unequal capacity will easily bring about exploitation of one by another, and unequal potential tends to invite manipulation and deception for the advantage of one over another. Social laws enforced by the state prove her awareness of, for instance, the policy of wages and the pricing of basic and vital commodities. Government intervention in this area is in line with the principle of optimum participation of each socioprofessional group in the

development policy adopted by the government in accordance with The Broad Outlines of State Policy. Social supervision is carried out to ensure the continuance of development in the economic and social fields. It is directed towards the most equal and extensive possible distribution of development products and the widest possible spread of knowledge and those skills which are needed for subsistence through formal education, cheap training, scholarship, etc.

E. Supervision and the "Rule of Law"

Since independence Indonesia has attempted to guarantee that the relationship and interaction among citizens, among institutions or between individuals and institutions in any field is governed by explicit, secure and, to a certain extent, constant legal statutes. Furthermore, any individual or institution has the right to demand respect for and the exercise of those statutes in court in accordance with the rights granted by the rule of law.

However the development process has created complex relationships which may not yet be regulated by existing legal statutes. The planning of Indonesia's economy in the framework of development planning has obviously changed the spontaneous-market-mechanism by conscious economic organization on the part of the government. This kind of planning requires a sufficient supply of juridical instruments and gives the rules of law an important role either at the preparatory or at the final stage and its implementation. Included under this general heading are public law, private law, fiscal law, administrative penal code and their coordination requires a distinct relationship of one to another.

In spite of Indonesia's planned economy it should maintain an economic system which justifies individual free economic enterprises and consequential ownership of means of production. This does not imply that one's natural property, either in the form of capital, skill or knowledge, may be freely, consciously, and deliberately used to eliminate one's competitors. Legal supervision is necessary not to supervise competition as such, but as protection against monopolistic conditions. Effective competition is not identical with "laissez faire". On the contrary, effective competition has to be developed because such a mechanism will lead to

a better quality of production and service and will induce entrepreneurs to improve their productive systems.

Monopoly ought to be evaded and that is why supervision should be enhanced. The economic principle does not only justify but also emphasizes the value of the economics of scale. It is indeed obvious that in many industrial fields the more goods which are produced, the less will be the unit cost. As a result, production enterprise and distribution try to develop in such a manner so that they will gain a dominant position in market. This will put an end to the competition among a great number of small-scale enterprises and give rise to monopoly of a small number of large-scale enterprises. Thus, price is no longer a result of sound competition and economic efficiency can no longer be ensured.

Legal regulation is also needed to protect consumers from their own lack of concern and ignorance. In this connection it may be necessary to consider regulations forcing the producers and distributors to inform the people on the price, quantity and quality of the goods which they place on the market.

Legal regulation is also needed to achieve distributive justice. Economic theory shows how to reach the optimum level of efficiency for productive enterprises, but it does not further question whether it is done based on a pattern of equitable income distribution or on an unsuitable source of production within the society. That is to say that an optimum and efficient situation in the economic field can always go hand in hand with a situation of uneven income and possession of productive resources. Therefore, it is necessary to impose corrections through juridical institutions, fiscal dispositions, subsidy and alleviation of business or technical banking conditions in order to attain distributive justice.

What has been so far emphasized is the instrumental aspect of legal regulation. Statutes are intended as functional instruments designed to increase effectiveness in the economic, social or other fields. In order to attain the effectiveness of this juridical order, it needs in turn to be supervised to ensure that implementation is really based on the following basic principles:

First, regulations should be *general* and equally applicable to any subject under identical or approximate conditions. Second,

they should be *public*, that is, a material condition must be created such that each citizen knows the rules governing his actions. Third, they should not be *retroactive*, except in particular cases and based on plausible reasons. Fourthly, they should be *clear*; in the sense that the purpose should be in accordance with each juridical disposition. Fifth, the rules *should not contain any contradiction*, either in connection with the respective legal texts, or with regards to anticipating or following rules. Sixth, they should not expect or demand the *impossible*; the possibility of compliance should be real with regard to observance. Seventh, they should be *constant*. If, for instance, a certain economic activity in normal circumstances, repeatedly requires modifications in its rules, those modifications should be done in a regular interval and if possible, ascertained by the concerning party. Finally, there should be a harmonization between the law passed and its application by competent administrative and juridical institutions. This requirement is connected with matters of interpretation of the rules, i.e. which interpretation method should be used? How is uniformity to be attained in the interpretation?

F. Supervision of the Use of Funds and Forces

Supervision of the use of funds and forces is necessarily needed since development involves the expenditure of billions of rupiahs, which are derived from the taxes and voluntary saving of the society's own members and loans from outside. These considerations underline the need for supervision with regard to a number of factors. First, the setting of development priorities. Second, not only is a total sum of cash needed, but it should be also received by a certain project in due time. Third, the use of funds should not only be effective, but also efficient. Fourth, the improper use of equipment will result in premature repair or replacement.

G. Supervision of Attitude and Behaviour of Officials

No matter how well the regulation may be stated, there is always the possibility of misuse or deviation on the part of some concerned official. This may be done on purpose for his own benefit or for the benefit of the social group or political party to which he belongs. It may also be due to lack of understanding regarding

the function and significance of his office. However supervision in this case is urgently needed on account of the impossibility of foreseeing all possibilities which places limits on a priori regulations. Therefore, *insight* on the part of official will always be needed to stipulate the rules of the game. Yet, such insight is always open to error, both intentional and unintentional. And accordingly, supervision is important to the man in the street, because his assessment of the government as a whole is based on the attitudes and behaviour of concerned officials. For them, the government is an abstract entity, which is beyond their analytic capacity. What they really perceive are officials who are delegated authority by the government to carry out their duties on its behalf. In other words, their satisfaction and appreciation with regard to the government are often a result of correct attitudes of the officials with whom they come into contact.

CONCLUSION

The development efforts of Indonesia are meant to fulfill one of the main aspirations of the struggle for national independence, namely, to achieve the maximum possible welfare, — spiritually as well as materially — for her people. Aside from its desirable aspects, the development process seems to create unavoidable problems. It is important to be conscious of those both with respect to their source and the form in which they appear.

If these problems are accepted as fact, their fatal consequences should be avoided. One approach to lessening the impact of the problems is by means of supervision. This is one of the main reasons why supervision should be carried out in the development process. Supervision in any field is not intended to hamper individual initiative and the right to act, but to prevent those side-effects, which, if neglected could lead the development effort to total failure. Thus, in the final analysis, supervision will promote the successful realization of the ideals of development.

The performance of supervision requires not only a set of rules but above all it requires reliable officials. Among the qualifications required of such officials would be: knowledge of the field to be supervised and its function and significance in development; familiarity with the relationship between his field and

other related fields; and knowledge of the function and significance of development with regard to the people's welfare and national resilience. The above mentioned knowledge can be acquired from formal study, upgrading, seminars, and regular official briefings. But equally important, if not decisive, are qualifications which cannot be acquired through training, formal studies or experience, i.e. integrity, personality, lofty character and dedication. Those qualifications should come from the person himself, from his own awareness that he has a social duty to fulfill and that through his performance people will judge the use and significance of the government and state, which has given him his authority.

It should be noted again that supervision is not the only action to reduce the impact of side-effects in development. It is indeed necessary but it alone will not suffice. Aside from this, other actions are also necessary such as the right choice of development principles, its approach, development programs and strategy.

Finally, it is very important to think about the right concept of solving the three social disturbances earlier mentioned in this article, i.e.: congestion, transformations and differences or inequalities. The right concept is not only needed in order to supervise the impact, but also to solve the problem as a whole. Solving these problems is very important since they may easily be used as a basis for political rumours which may disturb the stability of internal affairs, but, more importantly, because their solution is a prerequisite to development, which forms the basis of national resilience.

CHRONICLES

NOVEMBER 1976

Internal Affairs

Deputy Chief of BAKIN (State Intelligence Coordinating Body) Lt. General Ali Moertopo said in Jakarta on November 1 that the pendulum theory in the game of politics and administration in Indonesia will gradually come to an end. The pendulum will stop after a successful 1977 general election. There will not be any extreme left or right wing in Indonesia after the election.

On November 1-3, a symposium of Badan Pembinaan Hukum Nasional (National Law Coordination Board) was held in Ujungpandang. The secretary general of FBSI Sukarno MPA said that the main problem in the field of labour-force is creating job opportunities as much as possible to meet the growth of labour force. Therefore, the establishment of industrial law should help to solve this problem.

On November 3, President Soeharto said in Menado, that development is for the people and not people for development. Any development project should be carefully selected so that it would directly or indirectly benefit the people.

On November 4-8, a dialogue was held between various religious denominations, university delegates, prominent figures and religious leaders of Central Java, in Surakarta, with the theme "Contributions of religious denominations to successful Development". Second Defense Territorial commander Lt. Gen. Widodo said among others that this dialogue would succeed if the problems and activities to be discussed are based on Pancasila (the Five Principles) and the 1945 Constitution.

Internal Affairs Minister Amirmachmud said in his address to the ulemas of West Java, in Bandung on November 5, that cooperation among various denominations is not to eliminate religious differences. Indonesia is not a theocratic state, but it guarantees the people to worship freely their own religion.

On November 6, the Internal Affairs Minister, Amirmachmud said in Bandung that the LSD (Lembaga Sosial Desa = Rural Social Institution) was aiming at developing members of the society not to become object but subject of development. Bridges, highways, dams etc. are the products of the government's apparatus supported by the people.

In his written address at the opening of the working conference of Private Learning Institutes in Jakarta on November 8, the ad-interim Minister of Education, Prof. Siwabessy stated that education in Indonesia is at present confronted with four main issues: (1) the problem of expansion of equal opportunity for all to attend school; (2) the improvement of quality in education; (3) improvement in its efficiency degree; (4) improvement in effectiveness.

Following a meeting of the Council of the National Economic Stabilisation at the Bina Graha presidential office, on November 9, Minister of State/State Secretary Sudharmono said that from January to October 1976 the inflation growth was 14%. Besides that, President Soeharto had provided guidelines for the purchase mechanism of cloves and the maximum utilisation of dockyards throughout the country.

On November 13, the President briefed governors of ten provinces on measures that should be taken to increase the food-stuff production, particularly in facing the coming preharvest period. The president also explained to the governors on the social function of the land and stressed that it is an obligation for the land-owners to use their agricultural land for producing food-stuff.

In his written address to the working conference of the Institute of Home Affairs on November 18, Internal Affairs Minister Amirmachmud said that the officials should not commercialize land under any pretext. The issue on the legal or illegal use of land by the people should be viewed under a much wider scope, on account of its sensitivity.

In the meeting of the National Economic Stabilisation Council on November 23, President Soeharto gave instructions to all government apparatus to increase agricultural products in Indonesia, among other things by promoting the distribution of fer-

tilizers to rural areas, increasing BIMAS/INMAS (mass guidance/mass intensification) credits, and intensifying informations.

On account of the stagnation of domestic textile industries, Central Bank Governor Rachmat Saleh stated in Jakarta on November 23, that it was due to smuggling activities. But textile industries were not going bankrupt despite the gloomy conditions and slowed-down marketing activities.

On November 29, Governor of Lemhannas (the National Defense Institute) Lt. General Sayidiman said in Jakarta that national resilience, which largely depends on resourcefulness and defence capabilities, should counterbalance powers from within or without.

International Relations

At the closing of the plenary session of Ikatan Sarjana Ekonomi Indonesia (the Indonesian Economic Association) in Prapat on October 30, Dr. Emil Salim (Indonesia), Prof. Mokhsamni bin Abdulrachim (Malaysia), Dr. Sanit Thanon (Thailand), Dr. Vicente Wenas (Philippines) and Dr. John Wong (Singapore) signed the establishment of the Federation of ASEAN Economic Association.

Foreign Minister Adam Malik said in Jakarta on November 2, that the statement made by Thailand's Foreign Minister on an ASEAN military cooperation had nothing to do with a military pact, but it was only on an exchange of information and joint military exercises. ASEAN is a form of regional cooperation in the social, cultural, economic and political fields and was never intended to become a military pact.

The presidential decree number 48, 1976, has ratified the nuclear energy concord regarding its peaceful uses, between Indonesia and West Germany on November 2. The agreement which was signed on June 14, 1976 stated among other things that cooperation in the field of nuclear energy could be conducted in the form of exchange of information, expertise and researchers.

On November 2, Washington released that the World Bank had agreed to give a 32 million US\$ loan for the expansion of

Tanjung Priok harbour. The loan will be for 20 years, including 4 years of grace period with an annual interest of 8,7%.

Antara's reporter in New York, released on November 4 that Mozambique and Benin had failed in their attempt to isolate Indonesia in the UN Forum, concerning the East Timor issue. It was said that their accusation was unrealistic and based on an illusion.

Malaysia's ambassador for the UN, Tan Sri Zaiton Ibrahim said to the UN IVth Commission on November 4 that Malaysia fully respected the decision of the East Timorese people to integrate with Indonesia. The people of East Timor have used their right to decide their own future, through the House of Representatives of East Timor.

On November 12, ADB agreed to a loan of US\$ 48,21 to Indonesia for the improvement of the road between Surabaya and Malang. The loan will be for 25 years including 5 years of grace period with an annual interest of 8,9%.

A group of CSIS members headed by its honorary chairman, Lt. General Ali Moertopo, visited several European countries on November 14-26 to have discussions on Western Europe and Southeast Asia with several study and research centres.

Minister for Research, Prof. Sumitro Djojohadikusumo said in London on November 19, that in 1980 the population of ASEAN countries would have reached a number of 260 million, of which 147 million are of Indonesia. And accordingly ASEAN will become a very potential market.

On November 29, President Soeharto visited Singapore to have discussions with Prime Minister Lee Kuan Yew, on bilateral relationship and ASEAN. Both countries agreed to solve the issue on the sea traffic of Malacca Strait.

DECEMBER, 1976

Internal Affairs

Chief of Staff of the Command for the Restoration of Security and Order (Kaskopkamtib), Admiral Sudomo said before the

reporters in Jakarta on December 1 that on December 1, 1976, 2,500 communist detainees were released, while on December 1, 1975, some 1,309 communist detainees of B category were released.

Naval Commander Admiral R.S. Subyakto said to reporters in Surabaya on December 3, that in principle the warships of the Republic of Indonesia would be equipped with guided missiles. Joint naval exercises are not aiming at establishing a military pact, but at promoting adeptness and exchange of experience.

Communication Minister Prof. Emil Salim (as an economic expert of ESCAP) said in Jakarta on December 6 that Indonesia has succeeded in exceeding the economic growth target specified by the UN. The economic growth of Indonesia in 1970-1975 is as follows: GDP 9%, agriculture: 4,9%, and industry: 15,2%.

After a meeting of the Council of National Economic Stabilisation on December 7, Minister of State Secretary Sudharmono said that:

- (1) the inflation growth had decreased since January 1 until November 1, 1976, at a rate of 14,37% (in 1975 it was 16%);
- (2) the president had again urged to pay full attention on agricultural instructions to farmers.

Minister of Education Syarif Thayeb said at the installation of the Rector of ITB (Bandung Institute of Technology) on December 7, that there is no room for political whine and group sentimentality in students' campus. Besides that, the Department of Education will determine the strategy of University Development.

Chief of Staff of the Command for the Restoration of Security and Order, Admiral Sudomo said in Jakarta on December 7, that the New Order terminology is not referred to a group but to a mental attitude towards the preservation of Pancasila and the 1945 Constitution.

The Director General of General Administrative and Regional Autonomy (PUOD), Wang Suwandi said in Jakarta on December 7 that all programs of the Presidential Instruction (Inpres) will be included in the Draft Regional Budget (APBD), so that the Regional House of Representatives (DPRD) has a real and responsible autonomy on its implementation. Furthermore, the

Inpres of the regency/town should not be implemented by mutual aid (gotong royong) and it should be done within one year.

State Minister for Research Prof. Sumitro Djojohadikusumo said in Jakarta on December 8, that the pattern of the development of energy should be based on three criteria: technological solution, economic reality and the preservation and security of the environment.

In his inaugural address at the installation of newly graduated officers of the Armed Forces Academy (AKABRI) in Yogyakarta on December 8, President Soeharto described them as Indonesia's best sons and called upon them to serve for the best interests of the nation. The '45 spirit is not the monopoly of the Armed Forces, but it belongs to the people of Indonesia.

President Soeharto said in Jakarta on December 9 that the Indonesian people should observe the mechanism of national leadership which is based on the preservation of the Five Principles (Pancasila) and the 1945 Constitution. The New Order is an Order of development and should act as a corrective force for the implementation of the Five Principles (Pancasila) and the 1945 Constitution.

The Minister of Education, Prof. Syarif Thayeb said in Jakarta on December 9 that since the last four years the government had build 32.000 Inpres (Presidential Instruction) Primary School buildings.

On December 13 President Soeharto said to ulemas in Jakarta that democracy is a process and should therefore be developed together. Furthermore, the general Election is a means to develop democratic life in Indonesia.

The Chief of Staff of the Command for the Restoration of Security and Order, Admiral Sudomo said in Jakarta on December 17 that the G-30-S Letter (the qualification letter of non involvement in the communist supported coup in 1965) is now no longer needed except for job applications in the Armed Forces and other vital government offices, and children who were still under 12 years-of-age when the coup broke out were not subject to use such reference letters.

On December 21, a meeting of the Council of National Economic Stabilisation was held to discuss preparatory measures for the establishment of a capital market. Minister of State/State Secretary Sudharmono said that the capital and money market is expected to start its operation on July 1, 1977 at the latest and PT Pessero Dana Reksa will be in charge with selling and buying shares for public.

Addressing the attendance of the "Mother's Day" in Jakarta on December 23, President Soeharto said that to maintain the national leadership which is based on the national philosophy, Pancasila and the 1945 Constitution doesn't mean to maintain someone to be the president of this country. And National leadership mechanism are but fundamental regulations on how the state and nation should be led in an orderly and directed manner towards the attainment of common aspirations.

The Presidential Decree No. 52/1976 dated December 27 stipulates the forming of the Capital Market Governing Board which is composed of the Finance Minister Ali Wardhana as the chairman, State Minister for Administrative Reform, Dr. J.B. Sumarlin as vice chairman, and the Capital Market Executive Board, which is in charge of guiding and operating the capital market in line with the government regulation.

After the Cabinet Plenary Session on December 28, Information Minister Mashuri said that (1) the projected budget (1977/78) will be higher than that of 1976/77, both in terms of state revenue and in cost; (2) the salary of civil servants and militarymen will be increased as from April 1, 1977.

On December 30, the Trade Department stated that: (1) the export value of crude oil during the first nine months of 1976 reached the amount of US\$ 3,6 billions and other export values reached the amount of US\$ 1,494 billions.

International Relations

US Congressmen of the Republican Party, James M. Jeffords, visited Indonesia on December 1-18 as a guest of CSIS (Centre for Strategic and International Studies). He stated among other things that: (1) his visit in Indonesia was to get a clearer picture of human rights in this country as a basis for his report to the US

government; (2) ASEAN should emphasize more on economic development rather than forming a military pact.

On December 1, the chairman of Philippine Board of Energy, Geronimo Z. Velasco, and Piet Harjono of Pertamina signed a co-operation agreement in oil. Pertamina has sent seven of its experts to the Philippines to train Pnoc's (Philippine Oil Company) employees in drilling operations and Petroleum engineering.

Malaysian Vice Minister of Defense Encik bin Haji Hashim, visited Indonesia on December 6-14 for a discussion on a bilateral military cooperation. He said that there is no need for ASEAN to form a military pact, but cooperation on a bilateral basis will suffice.

Defense Minister General M. Panggabean said in Jakarta on December 7, that an ASEAN military cooperation may be conducted, especially in standardization of arms. Cooperation between Indonesia and Malaysia in producing light weapons is being explored.

Foreign Minister Adam Malik said in Jakarta on December 9, that ASEAN will not set up a military pact backed by outside powers, for this will be against the ASEAN spirit. Besides, ASEAN has always rejected outside interference.

Thailand's Prime Minister Thanin Kraivichien with his group stayed in Indonesia for a three-day visit on December 10-13, to discuss issues on bilateral relations, international development and Southeast Asia. Both countries agreed to: (1) promote cooperations among ASEAN member countries; (2) further enhance co-operation in the social, economic, cultural and political fields between the two countries. Furthermore, Prime Minister Thanin Kraivichien said that: (1) anything to do with military pact is outside ASEAN; (2) they should struggle for unification and safeguard their way of life from latent communist threats; (3) Thailand is taking possible precautions against any kind of invasion from neighbouring communist countries.

On December 15, a US\$75 million loan agreement was signed in Jakarta, between the Bank of Indonesia and a Consortium of 10 International Banks, which were represented by Asia Pacific Capital Corp. The loan will be used to finance the Cilacap Oil refinery project.

A meeting of ASEAN food and agriculture senior officials was held on December 16-18 to discuss cooperative study on food and agriculture in the region of ASEAN. They agreed to establish six joint study projects on food and agriculture.

On December 27, Japan and Indonesia signed a loan agreement in Tokyo, in which the Japanese government agreed to extend a loan of US\$ 63 million to Indonesia for its road and electric power generation project.

Indonesian Ambassador to the US, Rusmin Nuryadin, said in Jakarta on December 27, that there will be no principal change in Indonesia-US relations under the administration of president elect Jimmy Carter. The ambassador explained that in 1976 the Indonesia-US trade volume reached a total of US\$ 3,6 billion.

ASEAN Secretary General, H.R. Dharsono said in Tokyo on December 28, that (1) ASEAN countries in general, Thailand in particular, were facing the difficulty of striving to cultivate relations with the Indochinese states; (2) ASEAN do not have any objection on the different political systems they are adopting. The most important thing is to have friendly relations with the Indochinese states.

JANUARY 1977

Internal Affairs

President Soeharto described 1977 as the year of hope and challenges, in the end of the year address of 1976 in Jakarta. He said that Indonesia was able to curb the inflation rate in 1976 to 14,2% compared with 19,7% in 1975. And the government is determined to take stern measures against corruption, abuse of the state finance, and abuse of authority.

On December 31, 1976, Chief of Staff for the Restoration of Security and Order (Kaskopkamtib) Admiral Sudomo said in Jakarta that 1976 was a year of challenges on account of: (1) corruptions, commercialization of official positions, the Sawito case, etc. (2) the increase of political and psy-war launched by irresponsible elements.

On January 6, 1977, President Soeharto presented the draft 1977/78 state budget, which totals a little more than Rp 4,2 trillion and of the total, (1) domestic revenues and development will be respectively Rp 3.484,2 billion and Rp 763,1 billion; (2) Rp 2.079,4 billion and Rp 2.167,9 billion will be used to cover routine and development expenditures.

On January 10, Finance Minister Ali Wardhana said that: (1) since the first Pelita (Five Year Development) (1969/1970) prices have gone up 3,4-4 times but the state budget volume has increased 12,5 time, from Rp 330 billion to Rp 4,2 trillion; (2) debts made during the old order regime totalled US\$ 2,2 billion while new one totalled US\$ 5,2 billion.

On January 12-15, a conference of Governors and Regional Heads from all parts of Indonesia was being held with the theme "The stabilization of working programme for 1977/1978 and towards a successful 1977 general election". At the opening address of the conference, President Soeharto had drawn the attention of the governors and regents to participate in intensification efforts of rice field saying that mass guidance and mass intensification programme should be carried out properly. The President had also stressed on the need of conducting the coming general elections as a way of developing a democracy in Indonesia. And during the campaign, political struggle should not foment disunity among the Indonesian people.

The Deputy Chief of State Intelligence Body and Honorary Chairman of the Centre for Strategic and International Studies, Lt. General Ali Moertopo, said on January 15, that for the sake of continuity of the national development and stability of Indonesia and Southeast Asian region as well, the present leaders of this country want the national leadership to remain in the hands of President Soeharto for another five year term. That is why there is no reason for any political speculations in connection with the coming general elections.

On January 15, in Jakarta, a meeting was held between President Soeharto, the Indonesian oil officials and foreign oil contractors. Following the meeting, Lt. General Ali Moertopo said that the Indonesian government will protect the foreign oil companies. Furthermore, President Director of state run oil company Pertamina, Piet Harjono said on January 17 that the Indonesian

government was probing possible incentives for exploration to foreign oil companies in Indonesia.

On January 15, the head of Logistics Agency (BULOG), Bustanil Arifin reported to the president on foodstuff supply for the coming preharvest time. President Soeharto had instructed to maintain foodstuff prices, so that the state officials can really benefit from their salaries, which will be increased as from April 1, 1977.

80 leaders of protestant churches held a consultation meeting in Jakarta on January 16-18 to cultivate closer relationship between the government and the church. Director General of the Protestant mass guidance of the Department of Religious Affairs, PN Harefa said that the church should try to stand on their own feet without depending on outside assistance.

A meeting of National Defence and Security Council (Wanhan-kamnas) and 16 universities was held in Bandung on January 21-22, to draw up basic concepts on Pancasila implementation, national doctrines and the 1978-1983 Broad Outlines of the State Policy (GBHN).

On January 24, the Chief of Staff of the Command for the Restoration of Security and Order, Admiral Sudomo said that there are two factors that has made Pancasila more important: (1) the communist victory in Indochina; (2) the new generation that will succeed the '45 generation around 1982/1985.

On January 25, the Director General of Higher Education, Ministry of Education and Culture Prof. Tisna Amidjaja said in his speech at the Seminar on Youth and Work Opportunities held by the KNPI (the National Congress of Indonesian Youth) that according to the Broad Outlines of State Policy, there are two main points in the formation of the younger generation: (1) youth formation should be done through the family, the school, youth organizations, scouting etc. in conformity with the norms of Pancasila; (2) the formation of an Indonesian man, who is physically and mentally healthy, and who possesses knowledge and skills, and is capable of developing creativity and responsibility, a high level of intelligence and a noble character, loving his nation and his fellowmen, in accordance with the provisions of the 1945 Constitution.

International Relations

The Indonesian ambassador to Vietnam, Hardi SH, said in Jakarta on January 4 that:

- (1) Indonesia-Vietnam relations would not be affected by what was said at the Colombo Summit by the Vietnamese delegation;
- (2) it is too premature to invite the Indochinese countries for a membership of the ASEAN, but Vietnam is willing to boost bilateral relations with ASEAN member countries.

Foreign Minister Adam Malik said in Jakarta on January 6 that:

- (1) there was no need to regard US State Dept. reports on Human Rights Violation, because of different legal system in comparison with that of the US.
- (2) Indonesia-US relation would not be affected by the reports.

The Prime Minister of Papua New Guinea, Mr. Michael Somare, stayed in Indonesia for a 6 day visit (January 10-16) to discuss diverse matters relating to bilateral and regional relations. A joint communique stated that:

- (1) both countries agreed to promote a stronger cooperation;
- (2) PNG appreciated Indonesia's position and regarded the question of East Timor entirely as a domestic matter of Indonesia;
- (3) both countries agreed to play an active and constructive role in the conference of the Law of the sea and would cooperate closely on the matter concerning the Archipelagic concept.

On January 13, UN Secretary General Kurt Waldheim appointed Maj. General Rais Abin as the commander of UNEF (United Nations Emergency Forces). Maj. General Rais Abin is the first Asian commander of UNEF.

On January 14, in New Delhi the Indonesian Ambassador to India, Lt. General Sugih Arto and the Indian Foreign Ministry Secretary, Vellodi, signed an agreement on the RI-India maritime boundary. The agreement provides for delimitation of a small stretch to be added to a 77 km (46 miles) line already demarcated under the 1974 agreement on the continental shelf boundary in the Andaman Sea and the Indian ocean, this 77 km boundary has now been extended North-eastwards into the Andaman Sea up to a point close to the possible junction point between India, Indo-

nesia and Thailand. It has also been extended south-westwards into the Indian Ocean. The extension has been done on the median line principle as stipulated in the 1974 agreement.

The Iraqi Vice President Taha Muhidin Ma'rouf stayed in Indonesia for a three day official visit on January 24-26, to hold talks with Indonesian leaders on the improvement of bilateral trade relations. A joint communique between President Soeharto and the Iraqi Vice President stated among other things that:

- (1) the two countries called for the expansion of spirit of detente to other parts of the world without sacrificing the countries seeking independence;
- (2) the two countries agreed to promote relationships in international forums and organizations for the realization of a new international economic order.

CONTRIBUTORS

Daoed JOESOEK, born on August 8, 1926, in Medan (North Sumatra). Ph. D. in Economics; Chairman, Board of Directors of CSIS; Lecturer at the Faculty of Economics, University of Indonesia, Jakarta.

Sumitro DJOJOHADIKUSUMO, born on May 29, 1917. Professor of Economics, Minister of State for Research.

J. PANGLAYKIM, born on March 24, 1922, in Bandung. Graduated from the Faculty of Economics and Administration, University of Indonesia. Ph. D. degree from University of Indonesia, under supervision of Prof. L. Mears, University of California. Consultant to the Indonesian Government, to private industries, banking and other types of business, member of Board of Directors of CSIS.

Abdul Raoef SOEHOED, born on March 2, 1920, Jakarta. Chairman of Foreign Investment Board concurrently Vice Chairman of Board of Investment. He graduated, from the Faculty of Technology, Bandung, as a civil engineer.

Otto Abdul RACHMAN, born on November 11, 1918, in Bogor (West Java). Major General of the Army (retired), Senior Staff Member, Centre for Strategic and International Studies (CSIS), Jakarta.

Soedjono HOEMARDANI, born on December 23, 1919, in Carikan (Central Java). Major General of the Army (retired), Honorary Chairman, Board of Directors of CSIS, Inspector General for Development (Irjenbang).

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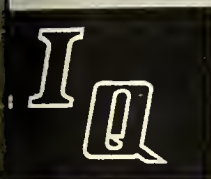
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Centre for Strategic and International Studies

Jalan Tanah Abang III/27

Jakarta Pusat, INDONESIA

Phone 356532 - 5, Cable Address : CSIS JAKARTA